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Clearstead is an independent institutional and wealth advisory firm that seeks to meet clients' investment objectives with appropriate risk and in a low-cost manner. Once this has been achieved, we seek returns above client-specific, market-based and peer group benchmarks. We believe broad diversification reduces portfolio volatility and enhances the opportunity for superior risk-adjusted returns.

Red October best summarizes the month. The markets focused on risks during October, of which there was no shortage: midterm election uncertainty, concern regarding peak U.S. earnings, ongoing trade tensions between the U.S. and China, decelerating growth in China, Federal Reserve policy, a slowing housing market, and the Saudi's inhumane actions.

However, U.S. economic data is supportive of the continued expansion as fundamentally the U.S. economy is doing very well with strong growth and low unemployment. The initial release of Q3 GDP growth was 3.5%¹ which was ahead of expectations. Midterm election uncertainty will soon be behind us with many political pundits expecting Republicans to lose the House majority and maintain control of the Senate.

This year we have seen fading growth in the manufacturing sector, particularly in Europe and China, likely impacted by trade concerns. The J.P. Morgan Global Manufacturing PMI fell to a 22-month low of 52.1, down from 52.2 in September². The main reason Global PMI fell was China, whose reading remained close to the stagnation mark at 50.1³. The U.S. Manufacturing PMI for October rose slightly to 55.7 (55.6 in September) while the Eurozone Manufacturing PMI declined to 52.0 (53.2 in September)⁴, its slowest growth in nearly four years.

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U.S. EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
DJIA	-5.0	3.4	9.9	15.2
S&P 500	-6.8	3.0	7.3	11.5
Russell 2000	-10.9	-0.6	1.9	10.7
Russell 1000 Growth	-8.9	6.6	10.7	13.7
Russell 1000 Value	-5.2	-1.5	3.0	8.9
FTSE NAREIT U.S.	-2.6	-0.9	1.6	6.1
Bloomberg Commodity	-2.2	-4.1	-1.7	-0.7

October was a turbulent month for equity investors across the globe, the second period of significant drawdown in U.S. Equities this year. The S&P 500 Index declined 6.8% for the month, while small caps as measured by the Russell 2000 Index fell 10.9%, erasing its year-to-date gains. Given above average equity valuations and gains that investors have experienced over the past several years, this sell-off again tested investors' psyche with some moving to the sidelines.

The equity turmoil led investors to defensive and quality stocks. Defensive sectors protected to the downside in this environment with Utilities and Consumer Staples the only two sectors positive for the month, +2.0% and +2.3%, respectively. There was a rotation out of some of the high flying technology and telecommunication services companies which have driven index returns over the past several years as markets seemed to reassess the valuation and earnings power of some technology and consumer behemoths. Consumer Discretionary, Energy, Industrials, Materials and Technology were the worst performers. Value trumped growth given the defensive posture and sector performance.

The strong earnings backdrop was not enough to shake investors' concerns and move markets higher. As of October 26 with 48% of companies having reported earnings, 77% of companies have surpassed analysts' expectations. The blended year-over-year earnings growth rate for the third quarter is 22.5% with strength across sectors. In aggregate, earnings are 6.5% above estimates with revenues 0.8% above estimates⁵.

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Year-to-Date	1 Year	3 Year
MSCI ACWI ex USA	-8.1	-11.0	-8.2	4.4
MSCI EAFE	-8.0	-9.3	-6.9	3.6
MSCI Emerging Markets	-8.7	-15.7	-12.5	6.5
MSCI EAFE Small Cap	-9.6	-11.3	-7.5	7.0

International markets declined slightly more than domestic equities. Tariffs remain a concern and market overhang, particularly for emerging markets. Lack of significant Brexit progress, slowing growth in China, the Saudi handling of Khashoggi, and general currency weakness versus the US\$ can all be pointed to as events that led to investor selling.

The MSCI EAFE Index fell 8.0% and the MSCI Emerging Markets Index declined 8.7%. Concerns over a China slowdown from the trade war triggered fears of lower growth in the region and led to a 11.3% loss on the MSCI China Index during October and 19.2% year-to-date. Japan's Nikkei Index fell 9.1% during October after being one of the stronger global markets this year.

The Bank of Japan and European Central Bank both left their interest rate policies unchanged during their most recent meetings. Accommodative monetary policies in these regions are aimed at supporting economic growth.

FIXED INCOME MARKETS				
Index	1 Month	Year-to-Date	1 Year	3 Year
BarCap US Aggregate	-0.8	-2.4	-2.1	1.0
BarCap Global Aggregate	-1.1	-3.5	-2.1	1.5
BarCap US High Yield	-1.6	0.9	1.0	6.6
JPM Emerging Market Bond +	-2.1	-6.7	-6.9	2.9
BarCap Muni	-0.6	-1.0	-0.5	1.9

U.S. Treasury yields climbed across maturities as the curve steepened during the month, though at times declined during select bouts of equity selling when investors preferred safety. The 2-year U.S. Treasury yield increased 5 basis points, the 10-year increased 8 basis points to 3.14%, and the 30-year increased 18 basis points to 3.39%³.

The Bloomberg Barclays Aggregate Index total return for October was -79 basis points whereas the longer duration Bloomberg Barclays Long Government/Credit Index declined 335 basis points. Credit spreads leaked wider and impacted both investment grade and high yield securities. High Yield declined 1.6% in the risk-off market sentiment while Bank Loans generated a slightly positive return of 1 basis point. The JPM Emerging Market Bond+ Index declined 2.1%.

Sources:

- 1 Bloomberg
- 2-4 IHS Markit, 11/2/18
- 5 Factset Insight, 10/26/18

Definitions:

J.P. Morgan Global Manufacturing PMI: Produced by J.P. Morgan and IHS Markit and is based on original survey data collected from over 12,000 purchasing executives in over 40 countries.

Markit U.S. Manufacturing Purchasing Managers' Index: The U.S. PMI is based on original survey data collected from a representative panel of around 600 manufacturing firms.

Markit Eurozone Manufacturing Purchasing Managers' Index: The Eurozone PMI is based on original survey data collected from a representative panel of around 3,000 manufacturing firms.

Disclosures

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