Portfolio Management
Monthly update

September 2019

Negative Headlines, but North American Markets Climb the Wall of Worry

Source: Chinese 300 A Share index, Thomson One, September 27, 2019

Source: Toronto Composite Stock Index, Thomson One, September 27, 2019

Highlights

- North American stocks outperforming largely due to US consumers.
- Headline risks of impeachment, trade wars slowing industrial demand, causing volatility in equities.
- Chinese stimulus targeted to consumers, which makes more sense than negative interest rates

Slowing global trade, impeachment proceedings, weakening relative strength in growth equities, all give the bears something to chew on.

Impeachment History not a big issue for Markets

Nixon & Clinton impeachment proceedings didn't change the market direction. Markets were weak before the Nixon Proceedings & continued so, strong markets continued under Clinton's problems.

Gridlock will likely get even worse in the US but this doesn't necessarily hurt markets. The specter of a far left candidate such as Elizabeth Warren or Bernie Sanders would be more of a scare for stocks. According to Brian Belski research September 25th Strategy snapshot US stocks have actually posted pretty decent gains during periods of momentum underperformance. We examined daily price changes for the S&P 500 Momentum index since 1994, and found that the annualized price return for the S&P 500 during days when momentum lagged was 9.1% on average vs 10.7% when momentum outperformed.

It is also important to consider the composition of the momentum trade. More than 50% of the S&P 500 Momentum Index comes from defensive sectors. So just from a common sense perspective, it would worry us more if the performance reversal came when cyclical names dominated the momentum group rather than defensives.

.25% rate cuts have historically been followed by better markets than .5% cuts. During the past six easing cycles, when the first or second Fed rate cut was 50 bps, the S&P 500 fell 12.9%, on average, in the subsequent 12 months. Contrastingly, when the Fed cut only 25 bps, US stocks logged double-digit gains.

September US economic data were mixed, which has been the case throughout the year. The ISM Manufacturing reading in early September received the most attention with the index dipping below 50 for the first time since August 2016. While there is no doubt that manufacturing is slowing, an ISM reading slightly below 50 does not necessarily mean a recession is coming, since it has dipped 3x this Cycle without a recession. (Belski Strategy snapshot Sept 25)

The consumer, driving roughly 70% of the economy, remains strong, boosted by a solid employment picture. Jobless claims are only about 5% off the cycle lows recorded in April. In addition, y/y wage growth has held steady at a ~3.5% this year, still below the peak rates exhibited during previous cycles. The pace of growth in consumer spending continues to accelerate this year, while US retail sales are following the same trajectory. Although consumer confidence took a big hit in September, levels are still elevated and not far off the highs last October.

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We continue to favour "growth at a reasonable price" equities & income investments although they feel pricey. Bonds continue to be a challenge with low interest rates and/or, heaven forbid, interest rates were to rise!

Regards,

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