



December Monthly Recap: Fed Stimulus, Trade Hopes Launch U.S. Stocks to All-Time Highs

Wall Street and global stocks surged in November, as the continuation of low-rate stimulus and progress in U.S.-China trade talks fueled appetite for risk.

These factors overshadowed a gloomy outlook for the world economy after the International Monetary Fund (IMF) downgraded its growth forecasts for Europe and Japan.¹ At the same time, the Atlanta Federal Reserve Bank is forecasting another slowdown in U.S. economic output for the final quarter of 2019.

U.S. Stocks Post Best Month Since June

The U.S. stock market fell to end November, but still posted its biggest monthly gains since June. The Dow Jones Industrial Average, S&P 500 and Nasdaq touched multiple record highs throughout the month, adding to yearly returns that now stand between 20% and 30%. During November, the major indexes gained between 2.4% and 3.3%.

Canada's benchmark S&P/TSX Composite Index rose 2.7 % during the month, setting multiple record highs in the process.

Markets in Europe and Japan finished broadly higher in November while Chinese stocks languished over ongoing protests in Hong Kong. Stocks in Mainland China and Hong Kong declined 2.9% and 2.4%, respectively.



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U.S.-China Trade Deal Optimism Grows

President Trump has reassured investors that the United States and China are making final strides toward a 'phase one' trade agreement. Both sides are expected to hold in-person talks in Beijing later this month, according to U.S. officials familiar with the matter.²

The 16-month trade war took a positive turn in October when President Trump first announced the phase one deal. Two-and-a-half months later, no agreement has been finalized. Reuters reported in November that a deal is unlikely to be completed this year as both sides remain far apart on key issues, including the status of U.S. tariffs on Chinese goods.³

China wants the U.S. to roll back all tariffs on its exports. To do so, the United States wants more concessions from Beijing, including plans to address intellectual property and technology transfer issues.

Corporate Earnings Continue to Languish

Corporate earnings season exceeded expectations in November, with three-quarters of S&P 500 companies posting better than expected results, according to financial research firm FactSet. But a closer look at the numbers reveals a broadening earnings recession for U.S. corporations.

For starters, S&P 500 companies posted a blended earnings decline of 2.3% for the third quarter. That's the third consecutive quarter of year-over-year declines, marking the longest losing streak since 2015-16. There's good reason to believe that the downturn will continue into the fourth quarter, as most of the S&P 500 companies to have issued guidance have posted disappointing numbers.⁴

The Month Ahead

There's strong reason to believe that stocks will end 2019 on a high, as seasonal influences add to an already positive mood in global markets. The so-called Santa Claus rally, which refers to the tendency for stocks to rally over the last weeks of December, could propel equity markets to new all-time highs.

Interest rates continue to remain low globally. In the U.S., 10 year bonds yield less than 2.5% which has historically led to higher than average annual returns for equities.



Investor sentiment remains substantially below optimistic extremes. Extreme optimism often markets important tops.

Over the next four weeks, investors will be closely monitoring developments on the U.S.-China trade front. Economic data and the final meeting of the Federal Open Market Committee (FOMC) for the year will also be in focus.



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Sincerely,

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¹ Elliot Smith (November 6, 2019). "European economy to grow at its lowest rate since 2013, IMF says." C NBC.

² Aljazeera.com (November 26, 2019). "US-China trade deal in its 'final throes', says Trump."

³ Heather Timmons (November 20, 2019). "A U.S.-China 'phase one' trade deal may not be inked this year." Reuters.

⁴ FactSet (November 15, 2019). Earnings Insight.

