



October Monthly Recap: Stocks End Volatile Q3 on a Soft Note as Economic Risks Resurface

Wall Street and global stocks ended a volatile third quarter on a soft note, as threats to global economic health pushed investors into the safety of gold and other traditional haven assets.

Stocks Wobble to End Q3

The U.S. stock market appeared poised to return to record highs in September, with the Dow Jones Industrial Average coming to within a few hundred points of that milestone. The gains quickly evaporated over concerns of a weakening economy and renewed trade tensions with China. The blue-chip Dow notched gains of 1.9% during the month of September. For the entire quarter, it was up 1.2%.

U.S. equities plunged at the start of Q4 after a closely watched gauge of U.S. manufacturing activity flashed a recession warning. The Institute for Supply Management's manufacturing purchasing managers' index (PMI) contracted in September for a second straight month.

North of the border, Canadian stocks set new record highs throughout the month before correcting sharply lower in the final week. Canada's benchmark TSX Composite Index set four record highs in the week ended Sept. 20.¹ Like its U.S. counterparts, the index plunged to start Q4.

Gold Surges

Gold and other traditional haven plans strengthened in the third quarter, as investors continued to hedge against inflation, weakening growth and geopolitical tensions.

Bullion surged to fresh six-year highs during the month and eventually peaked at \$1,566.20 a troy ounce on the Comex division of the New York Mercantile Exchange. That was the highest since April 2013.



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Some analysts, including those at Bank of America Merrill Lynch, believe gold will rise towards \$2,000 a troy ounce as soon as Q2 2020.²

Federal Reserve Cuts Interest Rates

The Federal Reserve lowered its benchmark interest rate by 25 basis points in September, marking the second such reduction in as many meetings. In doing so, the central bank opened the door to further rate cuts before the end of 2019.

Central bankers are propping up the U.S. economy over fears that a prolonged trade war with China will soon undermine domestic growth. While U.S. GDP remains on the right side of growth, it has slowed significantly in recent quarters. If Atlanta Fed numbers are anything to go by, GDP growth likely decelerated to 1.8% in the third quarter.³

The Fed wasn't the only central bank to introduce new easing measures. The European Central Bank (ECB) in September voted to lower its deposit rate to a record low of -0.5%. The central bank also announced plans to resume bond purchases of 20 billion barrels per month beginning in November.

U.S.-China Trade Tensions Resurface

The U.S.-China trade war was back in focus in the final week of September amid reports that the Trump administration was weighing the possibility of limiting portfolio flows into Chinese companies. According to Bloomberg and others, the White House is also considering limiting Chinese companies' ability to list publicly in the U.S. Such measures would affect billions of dollars' worth of investments.⁴

Before those reports surfaced, investors were optimistic that both countries were making progress towards a new trade agreement. Officials from both countries have confirmed that face-to-face talks will resume in Washington Oct. 10-11.

Some analysts believe that a comprehensive trade deal is unlikely anytime soon given the widening gap over matters related to intellectual property, Chinese industrial policy and Washington's growing deficit with Beijing.⁵

The Month Ahead

The U.S.-China trade war will be in focus this month as both sides return to the negotiating table. Beyond that, economic data and the return of earnings season could impact global investments.

According to financial research firm FactSet, U.S. companies are likely to report cumulative earnings declines for the third quarter. The estimated earnings decline for S&P 500 companies is 3.7%.⁶ If that number holds, it would mark the third straight quarter of year-over-year earnings – the first such feat since 2015-2016.



Sincerely,

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¹ CTV News (Sept. 20, 2019). "Toronto stock market hits fourth record high in a week, U.S. markets fall."

² Sam Bourgi (Aug. 8, 2019). "Gold Price Sees Sharp Correction but \$2,000 Still in the Cards." Hacked.com

³ Federal Reserve Bank of Atlanta. GDP Now.

⁴ Clive McKeef (Sept. 29, 2019). "Trump's plan to restrict U.S.-China investment: a negotiating ploy or harbinger of a longer-term battle?" MarketWatch

⁵ Sam Bourgi (Oct. 5, 2019). "Dow Futures Brace for Volatile Week as Damages from U.S.-China Trade War Begin to Surface." CCN.com

⁶ FactSet (Sept. 27, 2019). Earnings Insight.