MONTHLY
MARKET REVIEW

11 2019

Strategic Investment Group®

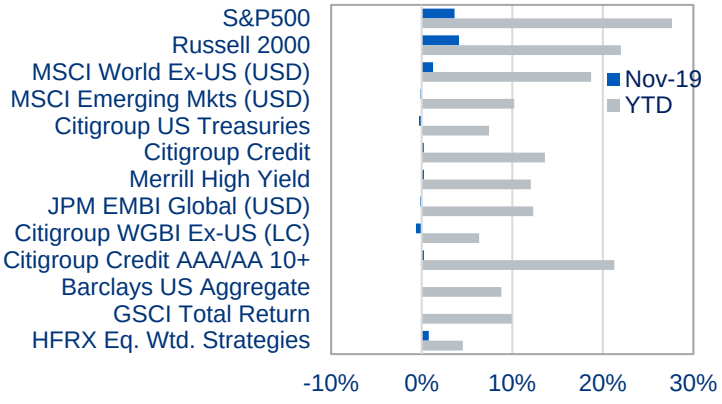
Global Market Review

Macro Summary

U.S. stocks extended the year's gains in November, followed by other developed markets, while political strife weighed on emerging market equities. Global monetary stimulus and pockets of strength in developed economies continue to drive multiple expansion for world equities, despite lackluster earnings growth and the twists and turns of Brexit and trade tensions. With inflation expected to remain subdued and the prospects for continued economic growth uncertain, the Fed and other major central banks have little incentive to raise policy rates. Commodities were flat as intra-month gains for oil prices were erased after OPEC wavered on expected production cuts.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.

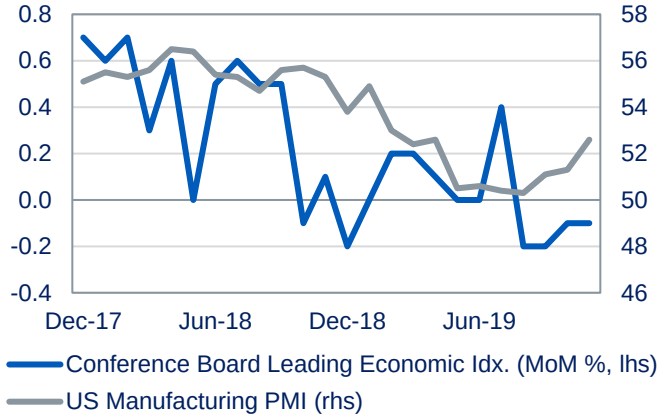


Domestic Economic Strength Supports U.S. Stocks

U.S. equities added to their impressive 2019 rally in November. Signs of strength in both the domestic labor market and consumer spending have helped to stave off the simmering growth concerns rooted in a steady decline in global manufacturing and trade. Domestically, however, the declining trend of manufacturing output has shown some signs of reversal. The U.S. manufacturing PMI appears to have reached a bottom at the end of the summer, while the decline in the Conference Board's Leading Economic Index – a composite measure of several indicators of domestic economic health – has also slowed (Exhibit below). Combined with the wave of monetary easing over recent months, this inflection point spurred U.S. stocks higher as the Russell 3000 returned 3.8%, pushing its gain for year to 27.3%.

Manufacturing Weakness May Be at an Inflection Point

Source: Bloomberg.



Investors' risk appetite saw more rotation out of defensive sectors in November as consumer staples and utilities stocks lagged. Energy remains at the bottom of the pack for 2019 in light of trade woes, despite gains of over 20% for crude prices this year. Tech, healthcare, and financials enjoyed the strongest gains in November, with tech stocks soaring to a 41.5% year to date gain.

Global Equity Multiples Expand as Earnings Waver

Developed non-U.S. stocks lagged U.S. markets in November under the weight of Brexit and trade uncertainty, but still managed to extend their 2019 rally. The MSCI World ex-U.S.

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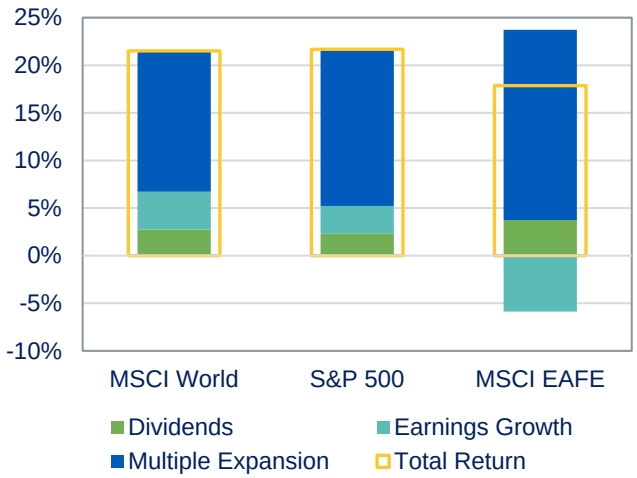
Index rose 1.3%, pushing its yearly gain to 18.7%. Emerging equity markets, however, took a step backward as political and social unrest roiled Latin American bourses and Hong Kong protests and Chinese growth concerns dragged on Asian markets. The MSCI Emerging Markets Index fell a modest 0.1% in November, bringing its 2019 return to just over 10%.

Gains are mixed for the year across markets, but equity returns overall have been robust in 2019. However, these gains have been driven by multiple expansion as global earnings growth has been lackluster and, in some cases, declined (Exhibit below). Global monetary stimulus and signs of resilience from the U.S. labor market, consumer, and the European services sector have all contributed to the wave of optimism that has buoyed risk assets in 2019, despite the vicissitudes of Brexit follies and trade tensions.

Multiple Expansion Has Driven 2019 Equity Rally
Source: Strategic. YTD returns through Oct. 31, 2019.



In Europe, Germany narrowly missed an official recession after it posted modest GDP growth of 0.1% for the third quarter following a contraction during Q2. However, while industrial weakness and falling exports are at the root of Germany's malaise, its domestic services industry has displayed continued strength. Elsewhere, an expected Tory victory in the upcoming UK Parliamentary elections has injected a rare feeling of certainty into the Brexit saga, as a win for Johnson's party should solidify his chances of finalizing a deal early in the New Year. The pound rallied as polls began to point to a clear lead for the Conservative party.

Emerging markets were the lone weak spot among global equities in November. Central banks in both Chile and Brazil were forced to step in as political corruption and social unrest roiled the nations' currencies. The Chilean central bank sold $20 billion – equivalent to half of its international reserves – to prop up the plunging peso. The MSCI Latin America Index fell 4.3% amid the turmoil.

Global Bonds Mixed as Risk Rally Continues

Yields on global safe haven assets rose in November, but remain significantly lower than the levels seen at the beginning of the year. The recent risk rally paired with Brexit and German economic woes dragged on European government bonds. The WGBI Europe index fell 1.9% in November, while losses for U.S. Treasuries were modest and concentrated at the long end of the curve. The spread over U.S. Treasuries of emerging market sovereign bonds narrowed slightly further in November continuing the trend so far this year.

While outlining an optimistic outlook for the U.S. economy, Fed Chair Powell signaled that low inflation would likely persist, keeping interest rates low. The remarks came on the back of the Fed's semi-annual financial stability report, which identified elevated asset prices and high corporate leverage as the chief risks to the U.S. financial system. The Fed noted the impact of low interest rates and the resulting reach-for-yield behavior as a vulnerability. Market sentiment was mixed after the comments, with Fed-funds futures indicating a 50% chance that the Fed will leave rates unchanged through the FOMC meeting next July.

Global Rally Benefits Beta

Market neutral equity funds continue to struggle amid 2019's rally, while directional strategies have been able to capture significant upside. The HFRX Equity Hedge Index has gained 9.4% for the year, including its 0.9% return in November. Global macro funds also gained 0.9% in November, following two months of poor performance as sovereign bonds and developed market currencies fell out of favor. The HFRX Equal Weighted Strategies Index gained 0.8% in November, bringing its return for the year to 4.6%.

Uncertainty from OPEC Stalls Commodities

Oil prices rose steadily through the month before giving back most of the gains during the last day's trading. The much-anticipated approval of a production-cut extension at the upcoming OPEC meeting grew doubtful, pushing the prices of oil futures down over 5% on Black Friday. The acute decline in energy commodities weighed on the broad GSCI Index, which entirely erased its intra-month gains of 2.7%, finishing flat for November.

Performance of Major Market Indices through 11-30-2019
Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	3.6%	5.9%	27.6%	16.1%	14.9%	11.0%
Russell 2000	4.1%	6.9%	22.0%	7.5%	8.6%	8.2%
MSCI World Ex-US (USD)	1.2%	4.5%	18.7%	12.6%	9.4%	4.1%
MSCI Emerging Mkts (USD)	-0.1%	4.1%	10.2%	7.3%	9.0%	3.1%
Citigroup US Treasuries	-0.3%	-0.2%	7.4%	9.7%	3.4%	2.5%
Citigroup Credit	0.2%	0.7%	13.6%	15.4%	5.9%	4.4%
Merrill High Yield	0.3%	0.5%	12.0%	9.6%	6.3%	5.4%
JPM EMBI Global (USD)	-0.2%	0.2%	12.3%	14.0%	5.9%	4.9%
Citigroup WGBI Ex-US (LC)	-0.6%	-1.5%	6.3%	7.5%	2.8%	2.9%
Citigroup Credit AAA/AA 10+	0.2%	0.2%	21.3%	25.8%	9.4%	7.0%
Barclays US Aggregate	-0.1%	0.2%	8.8%	10.8%	4.1%	3.1%
GSCI Total Return	0.0%	1.2%	9.9%	1.4%	1.6%	-8.3%
HFRX Eq. Wtd. Strategies	0.8%	1.1%	4.6%	3.2%	1.5%	1.1%