Despite Geopolitical Woes, Stocks Pushed Higher in October

As expected, the Federal Reserve (Fed) cut short-term interest rates 25 basis points (bps) on Wednesday, following similar cuts in July and September, putting the federal funds target range at 1.50%-1.75%. In his post-meeting press conference, Chair Jerome Powell said officials "believe that monetary policy is in a good place," suggesting that further cuts are unlikely. However, he added that "if developments emerge that cause a material reassessment of our outlook, we would respond accordingly."

Raymond James Washington Policy Analyst Ed Mills continues to follow the ongoing China trade negotiations and impeachment proceedings that present risks and opportunities for the market. Impeachment investigations are expected to begin a more public-facing phase around mid-November, while discussions toward a limited "phase one" U.S.-China trade deal are reportedly progressing positively, he notes. A deal is likely to outline common ground on agricultural purchases, currency stability, market access for financial services, and initial steps on intellectual property rights protections.

The month of October also harbored potentially impactful news about: Brexit negotiations, global accommodative monetary policy, short-term funding, Hong Kong protests, a global manufacturing recession, China and European growth concerns, and upcoming U.S. elections. Yet the markets displayed a risk-on sentiment, which Chief Investment Officer Larry Adam attributes to reduced recessionary fears, increased optimism surrounding U.S.-China trade negotiations, continued easing by the Fed and a better than expected earnings season. That, in conjunction with positive seasonal trends, propelled the S&P 500 to rally to a new all-time high for the fourth time in five months, Adam reports.

The month ended positively for the S&P 500 (2.04%), Dow Jones Industrial Average (0.48%), NASDAQ (3.66%) and the Russell 2000 Index (2.57%).

	12/31/18 Close	10/31/19 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	23,327.46	27,046.23	+3,718.77	+15.94%
NASDAQ	6,635.28	8,292.36	+1,657.08	+24.97%
S&P 500	2,506.85	3,037.56	+530.71	+21.17%
MSCI EAFE	1,719.94	1,954.10	+234.16	+13.61%
Russell 2000	1,348.56	1,562.45	+213.89	+15.86%
Bloomberg Barclays Aggregate Bond	2,046.60	2,215.86	+169.26	+8.27%

Performance reflects price returns as of 4 p.m. ET on October 31, 2019

Here is a look at some key factors we are watching, both here and abroad:

Economy

- Real GDP rose at a 1.9% annual rate in the advance estimate for the third quarter, a reflection of moderate strength in consumer spending and a further decline in business fixed investment according to Chief Economist Scott Brown.
- Consumer spending, 68% of GDP, remains supported by job gains and wage growth, he adds. A drawback in energy exploration and ongoing problems at Boeing led business fixed investment lower in the third quarter, but trade policy uncertainty and slower global growth were also factors. Residential fixed investment rose for the first time in seven quarters, and government spending helped to further boost overall growth.
- While a lot hinges on trade policy, Brown expects the pace of economic growth to remain moderate into 2020, limited by supply constraints in the labor market.

Equities

- While Joey Madere, senior portfolio strategist, Equity Portfolio & Technical Strategy, has a positive bias to the market, he has guarded optimism in the short term with the S&P 500 due to what he sees as overbought conditions and disappointments on trade over the past year.
- Madere attributes the past month's shift from growth to value to the good start to earnings season from the banks and a wider yield curve. He believes it's time to find a better balance between growth and value, and will be watching for signs that the recent relative strength is sustainable.
- Domestic-focused companies continue to show better earnings and price reactions to weaker global macroeconomics than those with over 50% of their revenues from overseas. Growth in the equity markets was propelled by more cyclical sectors, including Information Tech and Communication Services, explains Adam.
- Pavel Molchanov, senior vice president of equity research, reports that oil prices remain weak due, in large part, to the U.S.-China trade war and ongoing Brexit saga. Despite muted global demand growth, he and his team continue to forecast oil prices recovering to six-year highs by the end of 2020.

Fixed income

- Doug Drabik, managing director for fixed income research, shares that, two years and out, the Treasury curve dropped in price for the month, while shorter-term Treasuries rallied. As a result, the three-month/10-year spread reversed to a positive slope during October. The 2-/10-year spread widened from 4bp at the start of the month to 20bp. He thinks the Treasury curve was more responsive to U.S.-China trade talk speculation than actual economic data.
- Spreads on credit have remained in a tight range with secondary investment-grade spreads tightening a bit and demand for new-issues off the charts, which

Chief Fixed Income Strategist Kevin Giddis thinks is an indication that the Fed and the markets are in sync for the first time in a while.

- Corporate spreads narrowed as supply fell short of expectations, and although earnings were a mixed bag, many large corporations beat anticipated levels, Drabik added.

International

- October was a positive month for most international markets with a shift toward more cyclical or out-of-favor sectors, according to European Strategist Chris Bailey.
- Positive moves in the Brexit debate and ongoing global trade talks bolstered emerging market equity indices despite continued protests in Hong Kong and the complex situation in Northern Syria. Recent Chinese economic statistics indicate a slowdown, but not at levels faster than expected.
- Fixed income yields across Europe started to edge up, Bailey says, reflecting some of these movements. And, the European Central Bank has committed to spending $22 billion a month in bond purchases as part of its stimulus package.
- In South America, Bailey reports that positive news on pension reform boosted the Brazilian market, while Argentina's election heralded a return of the Peronist populists to power as the country's economic struggles continue.

Bottom line

- Patience is the best strategy in Madere's view. He would be selective through earnings season and buy areas as they pull back and hold support.
- On average, Bailey thinks markets outside the U.S. continue to exhibit lower earnings valuations and higher dividend yields. He'll be looking for more indications of growth potential that could further highlight opportunities for investors.
- As trade negotiations and global affairs progress, we'll be keeping an eye out for movements that might particularly affect financial plans and update you accordingly.

Please let me know if you have any questions about recent market events or how to position your long-term financial plan for the months ahead. I look forward to speaking with you.

flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing. An investment cannot be made in these indexes. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Small and mid-cap securities generally involve greater risks. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. The performance noted does not include fees or charges, which would reduce an investor's returns. Asset allocation and diversification do not guarantee a profit nor protect against a loss. Debt securities are subject to credit risk. A downgrade in an issuer’s credit rating or other adverse news about an issuer can reduce the market value of that issuer’s securities. When interest rates rise, the market value of these bonds will decline, and vice versa. U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. The yield curve is a graphic depiction of the relationship between the yield on bonds of the same credit quality but different maturities. Legislative and regulatory agendas are subject to change at the discretion of leadership or as dictated by events. Chris Bailey is with Raymond James Investment Services. Material prepared by Raymond James for use by its advisors.