Investment Update for the week of October 28th, 2019

- **Global Markets: Supportive Q3 earnings pushed equity markets higher**

    - **U.S. Equities:** The S&P 500 had a solid 1.2% gain as we continued through the core of third quarter earnings season. This, in addition to positive recent geopolitical events helped incrementally improve investor sentiment and contributed to more of a risk-on mentality. Within the S&P, energy (+4.3%), IT (+2.5%), and industrials (+2.2%) were the best performing sectors. Industrials was helped by a recovery in Boeing's stock. Despite announcing a large decline in sales following the grounding of its most popular new jet, the 737 MAX, investors were relieved to learn that it anticipates it will return to service before the end of the year. Yield sensitive sectors such as real estate (-1.1%) and utilities (+0.5%) lagged as rates rose to the higher end of the recent trading range. Small-caps outpaced large-caps with the Russell 2000 Index rising 1.5% and value (Russell 1000 Value: +1.5%) outpaced growth (Russell 1000 Growth: 1.1%).

    - **International Equities:** Both the MSCI EAFE and Emerging Markets Indexes were roughly in-line with the S&P for the week. Strong earnings helped push non-U.S. indexes higher although Brexit and trade tension uncertainty remained.

    - **Credit Markets:** Domestic yields continued to recover from lower levels reached in early September and October. As of the close of the week, the U.S. Treasury 10-year yield was hovering around the 1.8% level and at the upward end of the recent trading range. The rise in rates caused most fixed income asset classes to have flat to negative returns. Amidst tight supply all year, the municipal market had an elevated level of new issuance contributing to slight underperformance. High yield outperformed in-line with the equity markets and positive developments in the healthcare sector, a sizeable constituent of the asset class.

- **Economic Data/News: The saga drags on as the Brexit deadline is pushed back again**

    - **U.S.:** It was a lighter week for economic data which was mixed. Durable goods orders disappointed by falling just over 1% in September. Orders for non-defense capital goods excluding aircrafts also were underwhelming, falling a more than expect 0.5%. This metric suggests business investment is declining. On the positive end, IHS Markit Flash PMI rose to its highest level in six months, suggesting that the domestic manufacturing sector could be stabilizing.

    - **International:** The E.U. once again extended the Brexit deadline, this time through January 31st of next year. Additionally, the extension will be flexible meaning that the U.K. can leave earlier should a deal be reached. The extension also allows the U.K. to have an election this year while not simultaneously having to deal with exiting the E.U. Continued Brexit uncertainty hasn't been kind of the British pound which remains under pressure. Outside of Europe, Japanese economic data keeps disappointing. Both exports and manufacturing data slid and underwhelm. Despite disappointing data, positive trade developments decrease the likelihood of an additional rate cut this month. For reference, Japan's current short-term interest rate target is -0.1% and the incremental impact of making rates more negative is questionable. Things were more upbeat in China as there was a number of companies that reported positive earnings and the People's Bank of China (PBoC) offered a liquidity injection into markets, boosting sentiment.

- **Odds and Ends: Amazon's 1-day shipping hits profits, Tesla surprises to the upside, and Twitter disappoints**

    - We're the midst of the shipping wars and **Amazon** has fought hard to retain its dominance. After two years of rising profits, Amazon's Q3 profit fell by just over 25% vs. a year ago as a result of ramped up spending to offer 1-day Prime shipping to more customers. The stock fell on the news as investors had gotten used to Amazon's profits surprising to the upside, after many years of wondering if the company would ever turn a profit. Despite the short-term blip in profitability, the investment could work in Amazon's benefit, giving long-term investors more pause.

    - **Tesla's** stock surged nearly 20% last Thursday based several positive developments. First, the company posted its fifth quarterly profit since first going public in 2010. Next, the company reported lower than expected operating expense and construction on its new Chinese factory is moving along more quickly than expected. Last, the stock's level of short interest or the percentage of the stock being shorted fell from 24% in June to 20%. While still high, this is way below all-time highs of 60% in 2012 and shows investor skepticism has declined marginally.

    - **Twitter's** stock fell more about 20% on Thursday attributed to softness in its advertising business due to technical glitches which impacted ad pricing and delivery. The glitches also reduced the effectiveness of ads by regularly delivering them to nontargeted users (think a vegan getting a burger chain ad). The company also disappointed Wall Street by offering a tepid outlook for Q4 based on the persistence of technical issues into the next quarter. One bright spot was the addition of six million daily active users, bringing the total to 145 million.

- **Resource of the week:** Ever wonder what life would be like if your property taxes were eliminated entirely and you had the bare minimum of local regulation? Well Art Martinez de Vara was tired of wondering and worked to create a new city outside of San Antonio called Von Ormy. The deemed 'Liberty City' worked to get to no property taxes and seeks to save money wherever it can. While it sounds great in concept, the outcome might surprise you.

    - Link: https://www.npr.org/2019/10/18/771371881/episode-945-the-liberty-city

Sources: Bloomberg, The WSJ, T. Rowe Price Global Markets Weekly Update