SUMMIT FINANCIAL

Investment Update for the week of November 25th, 2019

- **Global Markets: Equity markets broke their winning streak while bond yields fell**

  - **U.S. Equities:** Stocks took a pause from their recent rally with the S&P 500 finishing the week modestly lower (-0.3%). This ended a six-week streak of gains for the index. Within the S&P, the healthcare (+0.8%) and financials (+0.5%) sectors had the strongest performance. The materials (-1.7%) and real estate (-1.2%) sectors were the largest laggards. Taking a tally so far in 2019, IT (+41.4%) remains a stand outperformer. The energy sector (+7.1%) continues to be well behind the S&P 500's YTD 2019 gain of 26.3%. The healthcare sector (+15.3%) is the second poorest performer, although it made a comeback of late. The Russell 1000 Growth Index (+30.4%) remains ahead of the Russell 1000 Value Index (+22.5%) while the small-cap, Russell 2000 Index (+19.3%) is behind comparable large-cap benchmarks.

  - **International Equities:** Most international equity markets also fell over the week, with the developed, non-U.S. MSCI EAFE Index declining 0.6%. An exception was the MSCI Emerging Markets Index which was flat. The EM Index was supported by positive performance from Chinese equities, as the MSCI China Index increased 0.7%.

  - **Credit Markets:** U.S. bond yields fell over the week despite a generally positive tone in markets. Falling yields paired with healthy demand was supportive for most credit market returns, and the Bloomberg Barclays U.S. Aggregate Index rose 0.3%. An exception was high yield, which experienced some weakness from issuer specific regulatory concerns within the telecom sector. Muni demand was robust and outweighed new supply amidst reports of healthy tax collection revenue in 2019.

- **Economic Data/News: Hong Kong complicates things with trade and the BoJ slows ETF purchases (maybe)**

  - **U.S.:** While the U.S./China trade discussions continue, the pro-democracy protests in Hong Kong complicate matters. The U.S. has historically supported the region, but China has indicated 'strong countermeasures' should the U.S. implement sanctions or other measures in demonstration of support for the protests. This leaves President Trump in a tough spot, which has so far manifested itself in a noncommittal state, publicly standing with both the Hong Kong protesters and President Xi. Outside of trade news, domestic economic data was light heading into the Thanksgiving holiday week.

  - **International:** Eurozone PMI data demonstrated a slower contraction in manufacturing than expected. This falls in the familiar camp of 'less bad news is the new good news'. Eurozone services activity weakened but remained above the level that indicated expansion. In Japan, the Bank of Japan (BoJ) appears to be scaling back its ETF purchases of local stocks. 'Appears to' is an important phrase here. The BoJ has gone 40 days without a meaningful ETF purchase leading to speculation that the central bank is engaged in a stealth tapering method first implemented about a decade ago. The BoJ is also in a tight spot as it owns more than three-quarters of the local ETF market, leading to questionable outcomes as it scales down its level of ownership.

- **Odds and Ends: Schwab might gobble up TD, Bridgewater makes a big bear bet, and Tesla regains the EV spotlight**

- Brokerage giant, **Charles Schwab**, is currently in discussions to purchase competitor TD Ameritrade for about $26 billion. This compares to Schwab's current market cap of just over $60 billion. The timing of Schwab's move is curious as it just thrust its competitors into the spotlight as it eliminated trading commissions on most major stocks and ETFs. Unlike Schwab that has a higher level of business diversity, trading commissions are a larger proportion of TD's annual revenues and profits putting more pressure on their business model going forward.

- The world's largest hedge fund, **Bridgewater**, recently put more than $1 billion on the line expecting that global equity markets will decline by March. The trade is made up of put options on both the S&P 500 and Euro Stoxx 50 Indexes. While a billion-dollar bet is massive in its own right, it's important to keep this in the context of Bridgewater's $150 billion in assets. There is also likely additional complexity behind the trades that can be simplified by the financial press. Nonetheless, it's indicative of Bridgewater's current sentiment on markets.

- After the new Ford Mach-E was unveiled, it was only natural that **Tesla** needed to regain the spotlight - and the announced CyberTruck did this in typical Tesla fashion. It's hard to decide if its looks (picture below) or specs are more out there. It has a body made of stainless steel that's resistant to bullets, 500-mile range, a 0-60 mph time of 2.9 seconds, and a base price of under $40k. There were typical Tesla mishaps during the presentation including the supposedly smash resistant glass being smashed on stage, but it's clear that the electric revolution in autos isn't going away anytime soon.

- **Resource of the week:** You probably heard the term direct indexing thrown around but might still be curious as to what it actually means. For a deeper understanding of direct indexing and how to implement it in portfolios, this *Trillions* conversation with the CEO of Parametric is worth a listen. Hat tip to the Salvo team for the suggestion and please feel free to submit suggested resources to smelnick@sfr1.com.
  - Link: https://www.bloomberg.com/news/audio/2019-11-13/is-direct-indexing-really-the-etf-killer-podcast

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