SUMMIT FINANCIAL

Investment Update for the week of November 4th, 2019

- **Global Markets: The S&P 500 and Nasdaq touched new all-time highs amidst peak earnings season**

  - **U.S. Equities:** The S&P 500 and Nasdaq indexes both touched fresh record highs over the fourth consecutive positive week for domestic equities. A strong jobs report paired with an additional rate cut were key catalysts for pushing markets higher. Earnings have also come in better than expected during one of the busiest reporting weeks with nearly one-third of S&P 500 companies delivering results. In particular, healthcare (+3.0%) and IT (+2.1%) were amongst the best performing sectors driven by strong constituent earnings. The energy sector (-0.3%) again lagged due to a decline in the price of oil based on to oversupply concerns. Despite a strong week, small-cap indexes remained below highs reached late last year. After a brief reversal, growth once again outpaced value and the Russell 1000 Growth remains about 7% ahead of the Russell 1000 Value Index so far this year.

  - **International Equities:** Non-U.S. equity markets were positive but slightly behind U.S. counterparts. The MSCI EAFE Index increased 1.2% bringing its year-to-date tally to 18.2%. The MSCI Emerging Markets Index was roughly in-line, rising 1.3%. Year-to-date results for emerging markets remain behind developed markets having increased 11.4% so far in 2019.

  - **Credit Markets:** Higher rated U.S. bond markets produced positive returns last week. The fall in rates following the Fed decision was a key driver of performance. For reference, the Treasury 10-year yield ended the week at 1.73%, down from last week's close of 1.80%. The 10-year yield got as low as 1.69% on Thursday but recovered some lost ground on Friday following the positive jobs report. Municipals were also positive, although they lagged treasuries last month and the spread between the two asset classes remains historically tight.

- **Economic Data/News: The Fed cut rates, the U.S. jobs report impresses, and Europe finally gets some good news**

  - **U.S.:** In addition to favorable earnings, economic news remained incrementally positive over the week. First, the U.S. Federal Reserve delivered a widely anticipated third rate cut this year. Importantly, policymakers suggested they are now on hold from additional cuts depending on economic data. That said, Fed Chair Powell also later stated that hikes were unlikely assuming inflation remained benign suggesting the Fed will be on hold for the near- to medium-term barring unusual circumstances. Next, the U.S. and China continue to work towards phase I of a trade deal although leaders of both countries canceled their upcoming meeting at the economic Summit in Chile. It appears that both sides are still working towards a deal although the relationship remains tenuous. Last, the U.S. economy added 128,000 new jobs in October, well ahead of expectations. This boosted sentiment as a strong jobs market and consequently strong consumer are key drivers of the U.S. economy.

- **International:** For a change of pace, there was also a string of positive economic news outside the U.S. First, the E.U. granted the U.K. a 3-month extension to arrive at a suitable Brexit deal. China also had encouraging manufacturing data suggesting stronger demand from Europe and the Asia-Pacific region. This supported solid European stock inflows which outpaced those into U.S. equities. It also reversed a trend of 40 weeks of outflows from the region. Finally, the ECB kept rates unchanged and restarted its asset purchase program. ECB President Mario Draghi passed the baton to Christine Lagarde who officially took leadership last Friday. In his last speech, Draghi called for unity among Eurozone leaders and acknowledged that monetary policy has become less effective than in the past and that fiscal policy might be required to fill the gaps.

- **Odds and Ends: Google gets Fitbit, Twitter bans political ads, and McDonald's CEO gets the boot**

  - Just after Apple's earnings report showed impressive strength in their wearables division, **Google** announced it was acquiring Fitbit for $2.1 billion. Fitbit IPO'ed several years ago fueled by optimism for the segment but has since been pulled back to reality with fierce competition from larger rivals such as Apple and Samsung. Google has yet to produce their own smartwatch hardware despite providing operating software for these devices for many years. It's possible that this acquisition in conjunction with a prior acquisition of smart-watch producer, Pebble, could suggest that a Pixel Watch could be in the cards for the future.

  - **Twitter's** CEO and co-founder Jack Dorsey announced that the company would be banning political all political ads starting November 22nd. The announcement came just minutes before Facebook's quarterly earnings and highlighted the opposing stances the two companies took. Twitter's move acknowledges the ramifications social media can have on elections and democracy worldwide. Despite the attention these decisions garner, political ads still represent a small portion of both companies' overall revenue.

  - **McDonald's** announced early Monday morning that they were terminating their CEO, Steve Easterbrook for an inappropriate relationship with a subordinate employee. Easterbrook also resigned from the board and acknowledged that he had violated company policy. McDonalds reported that they will be paying Easterbrook 26 weeks severance and he has agreed to not work in the fast food industry for two years.

- **Resource of the week:** Jim Simons and the firm he founded, Renaissance Technologies, are both legends within the hedge fund industry yet surprisingly little is known about their inner workings. In this episode of *Masters in Business*, Barry Ritholtz interviews the WSJ's Gregory Zuckerman who's latest book focuses exclusively on Jim Simons and the quant revolution he helped found. It's a unique insight into one of the most interesting firms in recent history that has been able to sustain a 60% annualized return in their Medallion fund for 30 years!

  - Link: https://www.bloomberg.com/news/audio/2019-10-30/gregory-zuckerman-on-the-quant-revolution-podcast

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