



MARKET Commentary

November 2019

Macro View

The U.S. and China continued to make progress towards a "Phase 1" trade agreement. Although, not without hiccups. Markets are hoping for a definitive announcement prior to December 15th when a new round of tariffs are scheduled to go into effect on Chinese goods. The impeachment proceedings ramped up, but risk assets largely shrugged off testimony and sound bites as little new information was disclosed. A vote in the House may come before the holidays.

A better-than-expected employment report kicked off the month and pushed major equity indices to record highs. Further, risk assets rallied on renewed trade optimism only to falter as the Trump Administration threatened new tariffs if an agreement could not be reached. Over the month, economic data pointed to tentative signs of an improvement in business sentiment and base economic activity. November's US purchasing manager's index (PMI) pointed to a pickup in activity across service and manufacturing sectors.

Further, housing data improved considerably buoyed by Fed cuts. With the modest rebound in economic data, Q4 GDP estimates have risen markedly as evidenced by the Atlanta Fed GDPNow model which rose from an estimate of 0.3% mid-month to 1.7% at month-end.

Monetary Policy

Most developed economy central banks, including the Federal Reserve (Fed), were on the sidelines in November. Recall, the Fed cut rates by 25 bps at their October meeting, marking three cuts in as many meetings, and signaled that they would hold steady for now. Chairman Powell delivered testimony to Congress reiterating that the Fed is on hold amid optimism about U.S. economic prospects. This sentiment was echoed by other Fed officials during public comments over the month signaling that they believe the fed funds rate is at an appropriate level. Markets are largely in agreement and don't have another cut priced in until late-Q3 2020. This seems reasonable as economic data looks to have bottomed and the domestic economy will continue its record long expansion into 2020. There will be no Fed-inspired market drama this year-end.

The Fed expanded their repo program to include both overnight and term offerings. The Fed is working to mitigate dislocations in money markets. Therefore, the Fed will likely continue to adjust offerings to ensure repo markets function normally as we cross over year-end. Fed officials will revisit repo operations more formally at the upcoming January 2020 meeting and will continue ad hoc policy measures until then.

Federal Funds Target
1.50-1.75%

US Treasuries

As of 29-Nov

Benchmark	Yield
3 Month	1.57%
6 Month	1.60%
1 Year	1.59%
2 Year	1.61%
5 Year	1.63%
10 Year	1.78%
30 Year	2.21%

ICE BofAML Index Returns

YTD as of 29-Nov

Index	Return
0-3 Month UST	2.07%
1-3 Yr Gov/Corp ≥ A	3.59%
1-3 Yr Municipals	2.69%
1-3 Yr Agencies	3.26%
1-5 Yr Gov/Corp ≥ A	4.27%
S&P 500	27.6%

Source: US Treasury, Bloomberg, ICE/BofAML, and S&P

Contact Us

Dan Bates

dbates@clearwateradvisors.com

Matt Peterson

mpeterson@clearwateradvisors.com

www.ClearwaterAdvisors.com

TRANSPARENCY LIQUIDITY SECURITY

Clearwater Advisors · 101 South Capitol Boulevard · Suite 1201 · Boise, ID 83702

Markets

Risks assets performed well in November with equity markets touching new all-time highs. It was a volatile month for the treasury market with yields swinging as much as 20 bps higher mid-month before settling into month-end. The inversion that was present at the front of the curve has disappeared as the yield curve steepened modestly.

Investment grade performed well especially given the robust primary market activity which included the fourth largest deal on record (AbbVie - \$30B). Total issuance for domestic investment grade came in just above \$100B. Year-to-date issuance is still down roughly 3% YoY. Interestingly, high yield issuance is about 47% over 2018. Financials delivered significantly better returns than industrials in the high grade space. BBB-rated issuers outperformed their higher-rated counterparts although A-rated issuers were a close second.

Money markets remained stable with Fed intervention offering a backstop to short-term funding dislocations. The Fed will be keeping a close eye on funding markets going forward and we expect the probability of a major dislocation, like that experienced in September, will be very low.

Looking Forward

Risk assets have priced in optimism that a trade deal will progress and that accommodative monetary policy will support further economic growth. Correspondingly, credit spreads remain low pricing in little risk that negotiations fail or economic activity falters. Heading into 2020, market expectations for monetary policy look reasonable and we'd expect the curve to steepen should a trade deal get completed and economic growth return to average.

The Fed has paused after cutting three times and the path for future rate cuts will be determined by macro risks and incoming economic data. If volatility surges, selloffs will serve as opportunities to selectively add exposure to spread product.

Please contact the desk with questions or to discuss investment opportunities in today's market.

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