Weekly Market Review

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The Week Ending October 19, 2019

The S&P 500 Index finished positive for a second straight week amidst a stronger than expected start to third-quarter earnings season, pushing the index within 4% of its all-time high. Unfortunately, not all news from last week was positive as China released their third-quarter GDP growth at a slower than anticipated rate. Progress was made on a deal for Brexit, but once again was shot down by U.K. Parliament, leading to another extension until January 2020. Traders are still holding out hope for a deal as the Pound traded higher Monday morning.

Third quarter's earnings are projected to show a decline of about 4% from the third quarter of 2018 due to the dwindling effect of the tax cut over the past year. Last week about 70 companies reported earnings, and over 80% beat analysts' expectations. It's very early and hard to make any projections, but so far, companies are showing resilience through the global slowdown.

Industrial production and retail sales were the important data points released last week. Both showed more signs of slowing growth, but key questions arose after reviewing each one. Industrial production declined 0.4% from August; this can mainly be attributed to the United Auto Workers' strike at GM. This figure is expected to reverse by the November report after UAW workers are back at factories. Apparel production turned in a strong month, suggesting tariffs could be bringing production back to the U.S.

Retail sales also showed a slightly negative growth rate, driven down by the volatile sectors: gasoline prices, auto sales, and building materials. Auto sales and building materials were contradictory to their own industry reports, released earlier in the month, which showed growth in both sectors. Even with the control group reporting sales unchanged from a month ago, future reports will be important to draw any conclusions from this month's miss as a one-off event or the start of a trend.

As we know, global growth is slowing, and the IMF proved this even further with a downgrade of 2019 global GDP to 3%, a level not seen since the Financial Crisis. This comes amid continuous loose monetary policy, which is struggling to spark growth and cannot overcome the slowdown in manufacturing. The IMF estimates without the current monetary policies, growth would be 0.5% slower. The IMF's downgrade came after China reported third-quarter GDP growth at 6%, the slowest in over 27 years. Over the weekend, China stated they continue to focus on keeping their debt levels under control and will not be stimulating their economy, but will be putting more focus on trade deals to turn the economy around.

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