Weekly Market Review

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The Week Ending October 26, 2019

The S&P 500 Index continued its positive streak for a third week as the index finished up over 1%. A bit overlooked so far this quarter is the outperformance of other indices relative to the S&P 500. U.S. small cap, international, and emerging market stocks are all outperforming the S&P 500 on a quarter-to-date basis. This contrasts with the S&P 500's strong outperformance through the first three quarters of the year. One explanation for the shift in international stocks is the U.S. Dollar's recent weakness, rather than a shift in fundamentals. Earnings season could also be providing a boost to smaller cap stocks as results are being reported stronger than expected.

We are still in the early half of earnings season, making it difficult to draw conclusions, but so far, companies' earnings have been more positive than anticipated. Earnings are decreasing from this time last year, as expected, but sentiment is improving. According to CNBC data, CEO's have been much more optimistic than previous quarters. Of the 200 S&P 500 companies that have reported to date, only 32 mentioned "recession" on their conference call. Instead, companies have more specific worries, such as China, an industrial slowdown, and auto sales slowdown. The consumer seems to remain strong as banks and credit card companies specifically mentioned their positive attributes. For instance, loan demand remains firm, and consumers are increasing their payment rates on credit card debt. Even as headwinds appear to build, the consumer hasn't wavered and continues to be the driver of economic growth.

Flash PMI's, early estimates, were released last week and showed a rebound in manufacturing. The flash reading was at its highest level since April. This was a consistent trend around the world as a majority of developed markets showed strength in manufacturing. Flash readings are just estimates and hard to surmise from, but any improvements in the manufacturing sector will be viewed as a positive. A healthy earnings season combined with any improvements in manufacturing could assist the markets in trading at new all-time highs. The S&P 500 Index did trade at an intra-day high Monday.

News has been positive recently, but that hasn't taken any pressure off the Fed. The market is placing a 94% probability of a rate cut after Wednesday's meeting, which would mark three straight sessions of rate cuts. Economic data appears to be somewhat strengthening, or at least flattening. In addition, companies are positive and showing no signs of recession worries, which presents the question: what will it take for the market to stop relying on the Fed?

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