



MARKET UPDATE

Month Ending November 30, 2018

Markets Ride a Roller Coaster

After a tough October, November looked to be more of the same. Indeed, markets dropped further down into correction territory at midmonth. But they rebounded and closed higher by month-end. The S&P 500 and Dow Jones Industrial Average rose by 2.04 percent and 2.11 percent, respectively, while the Nasdaq Composite gained 0.49 percent.

Strong fundamentals for U.S. companies drove this rebound. According to FactSet, with 96 percent of the companies in the S&P 500 reporting (as of November 23, 2018), the blended earnings growth rate was 25.9 percent. This result would be an improvement from an estimate of 19.3 percent at the beginning of the quarter and would represent the highest quarterly growth rate in eight years.

So, What's the Problem?

The problem was confidence, which took a hit in October and early November. That weakness was evident in the technical factors. All three indices spent most of the month below their 200-day moving averages. But recovery above that trend line at month-end may reflect returning confidence and be a positive signal going forward.

The international story was much the same. Developed markets, represented by the MSCI EAFE Index, fell during the month. Still, they finished close to even, down by 0.13 percent. Emerging markets did better, with a gain of 4.13 percent. Both indices are well below their 200-day moving averages, where they have been since the summer.

Investment-grade fixed income was the big winner for the month, as rates declined during November's turbulence. The 10-year U.S. Treasury yield rose to a high of 3.24 percent before falling to an even 3 percent by month-end. This increase caused the Bloomberg Barclays Aggregate Bond Index to gain 0.60 percent during the month. The high-yield index, which typically moves in line with equities, fell by 0.86 percent on rising concerns about debt.

Housing Sector Disappoints

One of the factors that rattled confidence was the housing sector, which has been in a rut for most of 2018. Low supply, rising mortgage rates, and increasing prices have slowed sales dramatically. New home sales—expected to rise by 4 percent in October following a disappointing September—instead fell by 8.9 percent. All in, new home sales are down more than 23 percent from highs seen last November.

One of the only bright spots in the face of slowing sales has been the high confidence levels for home builders. Unfortunately, home builder confidence fell from 68 to 60 in November. For context, home builder confidence has not been this low since 2016. In fact, we spent most of the year in the 68–70 range. But this decline, combined with the large drop-off in new home sales, indicates that the housing slowdown may be here to stay for some time.



MARKET UPDATE

Month Ending November 30, 2018

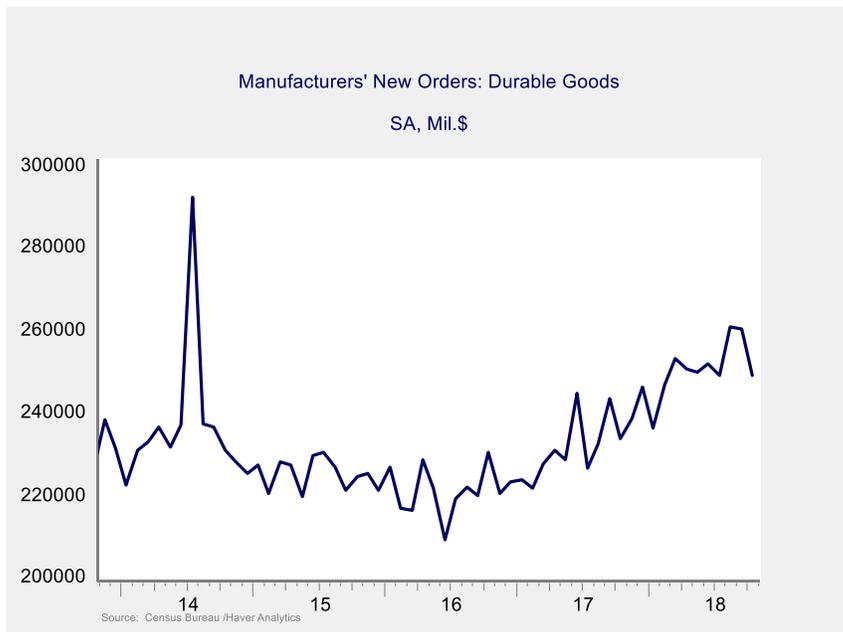
Economy Slowing but Still Growing

Despite the housing worries, the economic updates released in November were positive. A slowdown in September's spending data was largely offset in October, as effects from Hurricane Florence started to unwind. Plus, October's retail sales data came in with a strong 0.8-percent monthly gain, following 0.1-percent growth in September. This rebound helped to calm fears about a broader slowdown in spending.

Gains in personal income and spending data from October echoed the growth in retail sales. Spending rose by 0.6 percent, while income rose by 0.5 percent. These results beat expectations and suggested that September's slowdown was not permanent. The growth in income was especially encouraging given the slowdown in wage growth we saw in September.

But the news was not all positive. Although consumers were willing to spend their extra cash, businesses were not as quick to do so. Durable goods orders for October fell by 4.4 percent compared with September. This drop was below expectations for a more modest decline of 2.6 percent. As you can see in Figure 1, we have seen declines in the past two months that are worth watching. Nonetheless, the growth in the beginning of the year indicates overall investment remains high.

Figure 1. Durable Goods Orders, November 2013–Present





GRINKMEYER LEONARD
FINANCIAL

MARKET UPDATE

Month Ending November 30, 2018

The core durable goods figure, which strips out volatile transportation orders, also declined by more than expected. This decline indicates that overall business investment growth may be slowing as we head into the end of the year. Again, previous gains mean the level remains healthy.

Both businesses and consumers saw a small drop in overall confidence. But the major indicators are still close to all-time highs and show continued growth. There may even be some upside risk here. As gas prices continue to fall and with the jobs market healthy, consumer confidence may be set to increase. In fact, 250,000 new jobs were added in October. This result made up for the modest gain of 118,000 we saw in September (likely due in part to the effect of Hurricane Florence). So, the rebound is encouraging. Unemployment remained at 3.7 percent, and wages grew by a strong 3.1 percent on an annual basis. More jobs and higher wages should help keep the largest sector of the economy solid.

Although growth appears to be slowing in some areas, most of the economy continues to be healthy and growing. Strong employment and high confidence levels should continue to support consumer spending as we head into the important holiday shopping season. Of course, the slowdown in business investment is worth watching. But the large levels of investment we saw early in the year following last year's tax reform indicate that we are not at worrisome levels yet.

Politics Continue to Affect Markets

The big news in November was the midterm elections—once again showing us how politics can have both negative and positive effects on the markets. On the positive side, as the uncertainty from the elections disappeared once they were over, we saw a rally in equities. Unfortunately, this rally was not long lived. On the negative side, concerns surrounding global growth and continued talk of trade war escalation caused global market turbulence midmonth. But at month-end, we had another rally after the postponement of the U.S.-China trade war at the G20 meeting. Politics giveth, and politics taketh away.

Looking forward, politics will continue to create volatility. But absent a change in the fundamentals, the turbulence should be short lived. With a potential government shutdown pending here in the U.S., ongoing concerns in Europe about Italy, and the Brexit negotiations, we need to pay attention but also be mindful that political volatility usually passes quickly.

Markets Volatile, but Fundamentals Remain Solid

Political risks will likely continue to affect markets. But the good news is that on the whole, the economy appears to be strong enough to weather the storm. The economy continues to expand at a healthy clip, driven by strong consumer spending. Plus, the rebound from the September slowdown is encouraging for fourth-quarter growth. Confidence has declined, but it remains near multiyear highs and appears to be resilient.



MARKET UPDATE

Month Ending November 30, 2018

As we've seen, although the economy is doing well, markets can experience bouts of turbulence. The correction we saw in November is a perfect example of this short-term volatility. Of course, these periods can be painful for investors in the moment. Over the long term, however, they are a healthy and expected function of the market. As always, a well-diversified portfolio matched with an investor's time horizon is the best way to ride out any volatility and reach financial goals.



Grinkmeyer Leonard Financial

1950 Stonegate Drive / Suite 275 / Birmingham, AL 35242

Office: 205.970.9088 / Toll-Free: 866.695.5162 / www.grinkmeyerleonard.com

All information according to Bloomberg, unless stated otherwise.

Disclosure: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg Barclays government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

To remove yourself from this list, or to add a colleague, please email us at info@grinkmeyerleonard.com or call 205.970.9088.

Trent Grinkmeyer, Valerie Leonard, Jamie Kertis and Caleb Bagwell are Registered Representatives and Investment Adviser Representatives with/and offer securities and advisory services through Commonwealth Financial Network, Member FINRA/SIPC, a Registered Investment Adviser. Fixed insurance products and services offered through Grinkmeyer Leonard Financial, Grinkmeyer Leonard Benefits Group, or CES Insurance Agency. Grinkmeyer Leonard Benefits Group and their leadership consulting services are separate and unrelated to Commonwealth. Authored by Brad McMillan, CFA®, CAIA, MAI, managing principal, chief investment officer, and Sam Millette, fixed income analyst, at Commonwealth Financial Network®. © 2018 Commonwealth Financial Network®