WEEK IN REVIEW

November 22, 2019

The Bottom Line

- Stocks took a rest this week and were not able to extend their winning streak to seven weeks, as investors became more defensive. Stocks hit all-time highs Monday but drifted lower until Friday. Still major U.S. indices are off 1% or less from Monday's record highs.
- The 10-year Treasury yield continued its move lower this week, closing at 1.77%, down -6 basis points on the week. U.S. bonds were the top performing asset class for the week. Real estate was the worst performing group.
- The U.S.-China 'phase one' trade deal remains in focus but also elusive and the timing of the next face-to-face meeting for negotiators is undetermined.

Trade deal remains in focus, but elusive

Monday and Friday book-ended the week with gains, but the rest of the week was risk-off. Most major indices are only modestly off of their all-time highs. The seemingly never-ending uncertainty churning around a U.S.-China "phase one" trade deal hampered investors' conviction all week despite some upbeat news on the manufacturing front, good housing and permits data, and consumer sentiment levels that are supportive of consumer spending at year-end. With earnings season basically over and the next round of major economic reports not arriving until after Thanksgiving, the trade dispute between the U.S. and China was really the primary focus of market watchers. Both sides remain divided over core issues—including Beijing's demand for removing tariffs and the U.S.'s insistence on China buying farm products. On Monday CNBC's Beijing bureau chief said China's mood on trade was pessimistic on a possible tariff relief, raising the possibility that China may want to wait for US election/impeachment to run its course. A Reuters report on Wednesday said that a phase one trade deal may not be completed this year. On Friday, Chinese President Xi said he did not want a trade war but will fight back when necessary.

Digits & Did You Knows

SO YOU'RE SAYING THERE'S A CHANCE: The probability of a Fed rate cut following its 2-day meeting on December 11 was just 1% as of last Friday, Nov 15, but has moved slightly higher to 6.6% today. Odds for a hike at this meeting peaked at 66% in August 2019 (source: CME Group, BTN research).

POWER OF THE PEOPLE: The trade conflict between the U.S. and China has taken a toll on manufacturing and trade but consumer spending has remained strong. Consumer spending by Americans makes up an estimated 70% of our $21.5 trillion economy. Consumer spending by Chinese citizens makes up an estimated 40% of their $14.2 trillion economy (source: Department of Commerce, BTN research).

Market Snapshot	Index Level	1-week Price Return	YTD Price Return
EQUITIES			
S&P 500	3,110.29	**-0.33%**	**+24.07%**
Nasdaq Composite	8,519.89	**-0.25%**	**+28.40%**
Russell 2000	1,588.94	**-0.47%**	**+17.83%**
Nikkei-225 (Japan)	23,112.88	**-0.82%**	**+15.48%**
STOXX Europe 600	403.98	**-0.51%**	**+19.64%**
RATES			
2-Year UST Note	1.63	2 bps	-86 bps
10-Year UST Note	1.77	-6 bps	-91 bps

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Chart of the Week

Lower interest rates and steady job creation appear to be boosting the housing market. Last month, the number of new homes built jumped as three of the four regions posted gains, with only the Northeast having a decline. October residential building permits surprised to the upside, hitting the highest level since 2007. The number of new-construction permits issued increased +5.0%. Single-family permits have advanced for six straight months now. All four regions advanced, let by the Northeast – so the decline in home starts there was probably just temporary. In other housing related news, existing home sales rose 1.9% in October, also led by a rebound in single-family homes. All together the data indicates that the housing sector should help support the economy into 2020—in contrast to the weak 2018 and a slow start to 2019.

Through the Roof

U.S. residential construction

Note: Seasonally adjusted annual rate
Source: Commerce Department

Economic rundown

- The **NAHB/Wells Fargo Housing Market Index (HMI)** pulled back one point to 70 in November, just below the expectations of 71. Still the index remains historically high, not far from the Dec 2017 peak of 74.
- **The Empire State Business Activity Index** improved but wage and inflation pressures eased. **The Philly Fed General Business Activity Index** made its first gain in four months. **The KC Fed Manufacturing Index** showed the tenth district contracting for the fifth straight month.
- **The Leading Economic Index (LEI)** declined, led down by weak factory orders. It was the third decline in a row, which hasn't happened since the 2015-2016 soft patch.
- **Initial Jobless claims** were unchanged last week, but the four-week average rose again to its highest level since June. Still it remains at historically low levels.
- **Markit U.S. flash PMIs** suggest manufacturing activity may have re-accelerated in November.
- **The Reuters/U. of Michigan Consumer Sentiment Index** rose to a four-month high. Current conditions fell, but the expectations component rose for the third month.

The Week Ahead

Monday	• Chicago Fed National Activity Index • Dallas Fed Manufacturing Survey
Tuesday	• International Trade in Goods • Retail and Wholesale Inventories • S&P Corelogic Home Price Index • FHFA House Price Index • New Home Sales • Conf Bd Consumer Confidence • Richmond Fed Manufacturing Index
Wednesday	• Jobless Claims • Durable Goods • Gross Domestic Product (GDP) • NIPA Corporate Profits • Pending Home Sales • Personal Income and Spending • Fed Beige Book
Thursday	• Happy Thanksgiving
Friday	• Chicago PMI

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Asset Class Performance

WEEK IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best performer… or the worst. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as lowering portfolio volatility, improving risk-adjusted returns, and helping investments to compound more effectively.

	Monday	Tuesday	Wednesday	Thursday	Friday	WEEK	
High	Real Estate 0.52	Small Growth 0.69	U.S. Bonds 0.24	High Yield Bond 0.02	High Yield Bond 0.38	U.S. Bonds 0.41	High
	Mid Growth 0.26	Mid Growth 0.50	Real Estate -0.02	Large Value -0.02	Large Value 0.30	Mid Growth 0.27	
	U.S. Bonds 0.19	Intl Bonds 0.46	Mid Growth -0.05	Intl Equity -0.13	Intl Equity 0.28	Small Growth 0.06	
	Large Growth 0.17	Emg Markets 0.21	Small Growth -0.20	U.S. Bonds -0.14	Mid Value 0.27	60/40 Allocation -0.18	
	Intl Equity 0.12	Large Growth 0.21	60/40 Allocation -0.20	Emg Markets -0.21	Mid Growth 0.27	Large Growth -0.20	
	60/40 Allocation 0.07	Real Estate 0.13	High Yield Bond -0.21	60/40 Allocation -0.23	Small Growth 0.23	Large Value -0.26	
	Intl Bonds 0.03	Small Value 0.10	Large Value -0.29	Large Growth -0.33	Small Value 0.21	High Yield Bond -0.29	
	Large Value -0.07	U.S. Bonds 0.07	Mid Value -0.30	Intl Bonds -0.34	60/40 Allocation 0.14	Intl Bonds -0.42	
	Small Growth -0.11	60/40 Allocation 0.05	Large Growth -0.34	Mid Value -0.37	Large Growth 0.09	Intl Equity -0.50	
	High Yield Bond -0.13	Mid Value 0.01	Small Value -0.43	Small Value -0.53	U.S. Bonds 0.05	Mid Value -0.55	
	Emg Markets -0.16	Intl Equity -0.13	Emg Markets -0.44	Small Growth -0.56	Emg Markets 0.00	Emg Markets -0.60	
	Mid Value -0.16	Large Value -0.19	Intl Bonds -0.48	Mid Growth -0.70	Intl Bonds -0.10	Small Value -1.03	
Low	Small Value -0.39	High Yield Bond -0.36	Intl Equity -0.63	Real Estate -1.37	Real Estate -0.33	Real Estate -1.08	Low

Source: Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Investment Advisors. The performance of those funds may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as “Allocation” is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate.

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