MONTH IN REVIEW

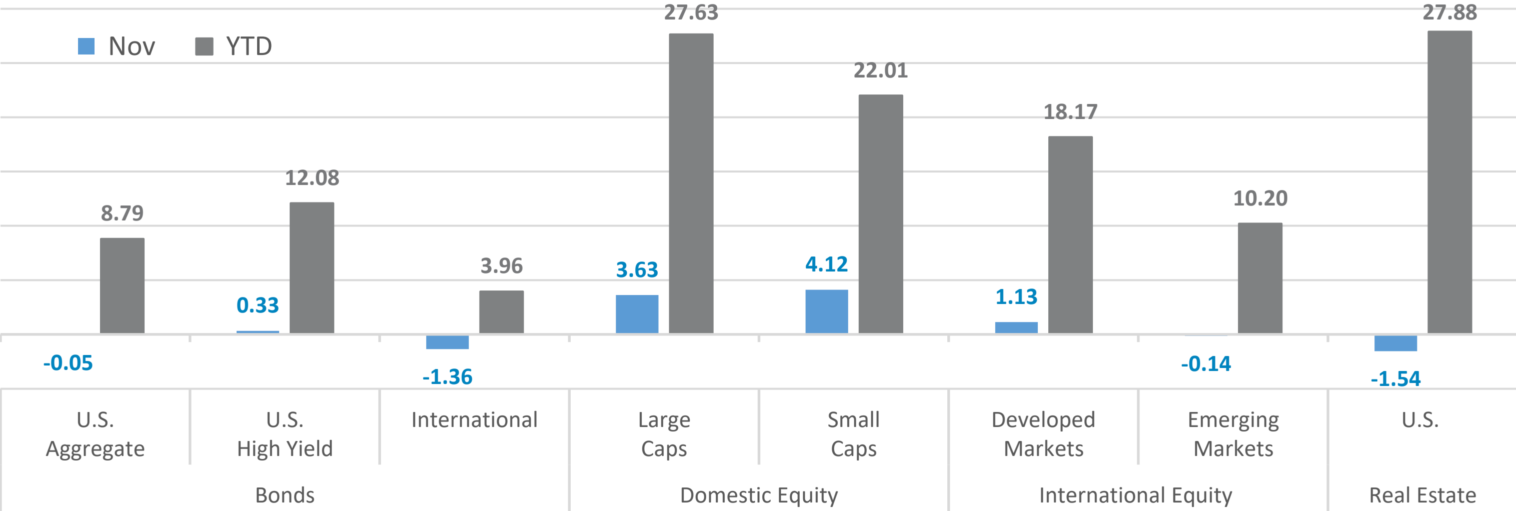
November 2019

Quick Takes

- **More record highs.** U.S. stocks closed out November with their largest monthly gains since June. Though they slipped in Friday's shortened trading session, most major indices set new record highs in Wednesday's session before Thanksgiving Day.
- **What me worry?** Stocks notched a series of records in November and volatility fell to the lowest levels in more than a year. Markets are typically quiet during the Thanksgiving week but the Cboe Volatility Index, or VIX, dropped to the its lowest level since Aug. 2018, a sign of complacency among investors.
- **Promising signs for holiday spending.** Just before Thanksgiving, new data on household spending and durable good orders suggested the economy is heading into the holiday season on solid ground. Third quarter GDP was also reported showing that economic growth was better than initially estimated.
- **Trade optimism improves.** Negotiations between the US and China on a 'phase one' trade deal haven't yielded a conclusion yet, but optimism that one is getting close seems to have been buoyed recently. December 15 is the next deadline for additional tariffs on Chinese goods if no deal materializes.

Asset Class Performance

Investors had a lot to be thankful for this November. The S&P 500 closed the month just slightly below its all-time high and is up +19% since last Thanksgiving when stocks were in free fall and on the way to their worst December since 1931. The all-time high recorded the Wednesday before Thanksgiving was the 26th record close of 2019.



Source: Bloomberg, as of November 30, 2019. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

QUALIFIED PLAN ADVISORS

November 2019

Macroeconomic Machinations

MONTH IN REVIEW

Manufacturing malaise may be finally, mercifully, turning around

The long, steady decline in U.S. and global manufacturing has been a running theme in macroeconomic analysis since manufacturing activity peaked in the spring of 2018. One of the most prominent measures of manufacturing activity are Purchase Managers Indices, or PMIs. There are a couple of points to keep in mind when evaluating manufacturing activity via PMIs.

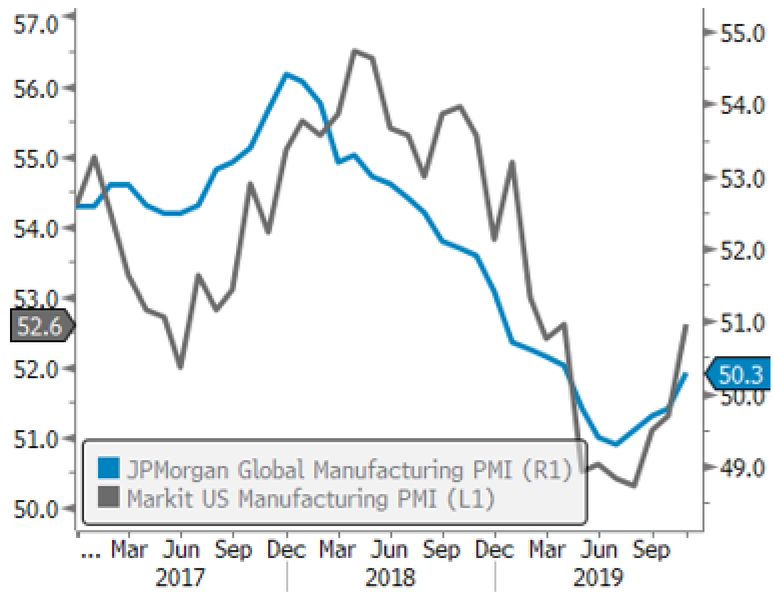
First, in the U.S. there are two primary PMI providers, the Institute for Supply Management's (ISM) Manufacturing PMI and the IHS Markit Manufacturing PMI. An unusual conundrum occurred with the November U.S. PMI data from these two companies. The ISM PMI showed an unexpected further *contraction* in manufacturing activity while the IHS Markit PMI showed a surprise *expansion* which was the best in 7 months. So which PMI is to be believed? Though the ISM is the original PMI index, the IHS Markit PMI is used as a component of the JPMorgan Global Manufacturing PMI. To be consistent in methodology, the nearby chart shows the U.S. and Global PMIs from IHS Markit. It should also be noted that PMIs are calculated by the regional Federal Reserve banks in the U.S. and their recent results were more positive than the ISM report, further lending credence to the IHS Markit results. The IHS Markit report tends to be more comprehensive as well, covering small, medium, and large firms while the ISM report only includes large firms.

A second point to consider with the PMI reports are that they are "soft" data, or survey-collected data. In fact the reports survey purchase managers. Given all the reports this summer about recession plus the on-off-on-off again drama surrounding the U.S.-China trade negotiations, would there be a profession any more dissatisfied by tariffs and trade wars than purchase managers? Looking at the nearby chart it appears the hook up in the PMI surveys occurred around the same time that news broke about a possible "phase one" U.S.-China trade deal – and they have steadily improved as optimism for a deal has heightened.

With all that in mind, the improvement in November is notable. The JPMorgan Global Manufacturing PMI rose from 49.8 in October to 50.3 in November meaning it moved from under 50, i.e. economic *contraction*, to over 50, i.e. economic *expansion*. It was the first time that it was above the 50.0 level since April, before all the summer recession talk.

U.S. and Global Manufacturing PMI Surveys

A recovery in manufacturing is afoot



Source: Bloomberg. Note: Any reading above 50 indicates economic expansion and readings below 50 indicates economic contraction.

Also impressive was the breadth of improvement in the JPMorgan Global Manufacturing PMI. The global PMI is compiled from surveys conducted in 30 countries. Headline PMIs rose in 18 out of the 30 markets, which is the highest number in two years. The number of countries reporting rising PMIs has now risen steadily since bottoming in May and June, up from lows of 30% of the total of 30 to 63% in November. Importantly, some of the faster rate of increases came from large economies like the U.S., China, and India.

Markit research shows that the changing number of countries reporting rising or falling PMIs suggests some information about the likely future trend in the headline PMI, tending to move ahead of turning points in the global manufacturing PMI by several months. That bodes well for continued manufacturing improvement into 2020.

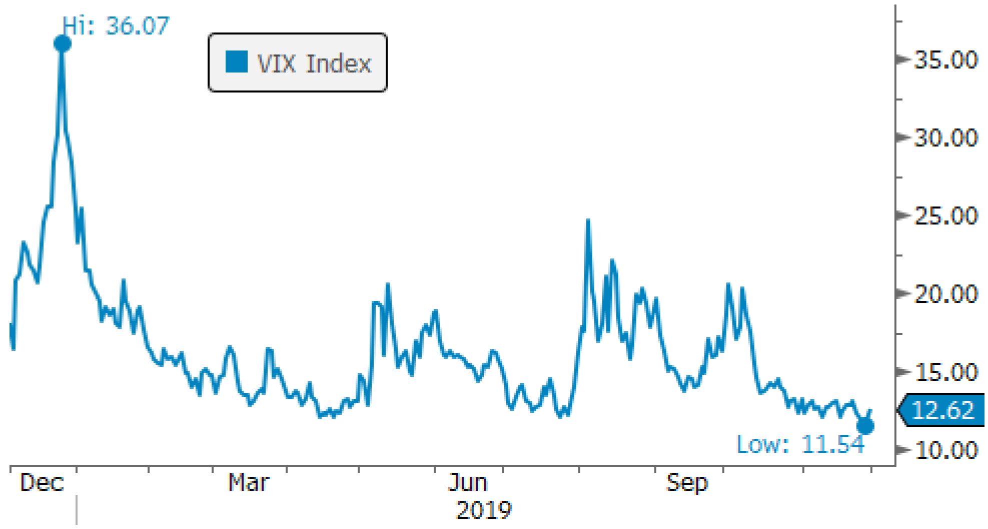
<u>Bottom Line</u>**: November brought extremely welcome news for the global economy. The recovery in manufacturing not only continued, it continued at an improving rate, with an improving breadth, and flipped from economic contraction to economic expansion.**

December brings low volatility and market forecasters bring out their crystal balls

Last month in this space a chart of seasonal S&P 500 volatility showed that November and December typically bring a steady decline in volatility. Though last year was a stark contrast to the seasonal trend, 2019 looks like it is back on the path of the historical pattern. As seen in the chart to the right, the VIX volatility index ended November at less than a third of what it peaked at last December in the throws of Q4-2018 market correction.

S&P 500 Volatility Plunges

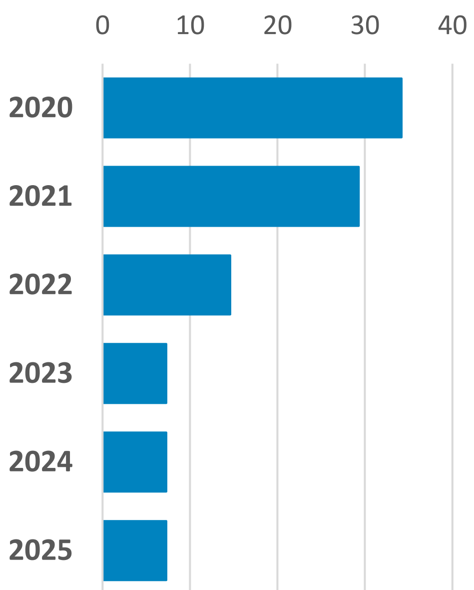
CBOE Volatility Index (VIX), November 2018 – November 2019



Source: Bloomberg.

It's not difficult to see why investors are so much more complacent about risk now than last November/December. Monetary policy has reversed from a series of hikes (and expectations of more), to a series of cuts (and expectations of nothing further for a while). In fact monetary policies around the globe have pivoted to easing and increasing liquidity to capital markets. The global manufacturing slump was in full decline back then and now it appears to be recovering. A year ago the Citi Economic Surprise indices were -20 and headed for -30 and this year they are hovering around -10 and look to be rebounding up.

Percent of economist who think the next U.S. recession will begin in a given year



Source: The Wall Street Journal's monthly survey of economists. Note: Data reflect responses from more than 55 economists surveyed in November.

The turnaround in investor confidence that materialized throughout November with the better-than-expected economic growth, the developing recovery in global manufacturing, and the flurry of new stock market record highs, may put pressure on the Fed as we enter 2020. If trade tensions remain restrained and global economic growth continues to rebound Treasury yields may increase. The U.S. 10-year Treasury yield has had a 82% correlation with the U.S. Markit Manufacturing PMI since 2016, according to research from TD Ameritrade. This would put pressure on the Federal Reserve to reassess the pause in interest rate cuts and possibly consider a return to hikes. But with inflation subdued we are entering the new year in a bit of economic Goldilocks environment with improving global economic growth, accommodative global monetary policy, a healthy employment situation, and little inflationary threats.

With that as the background, economist, wall street forecasters, and investment bank strategist, are relatively constructive with their 2020 outlooks. Credit Suisse, BMO, Goldman Sachs, and Citigroup are looking for +6-10% gains for the S&P 500 in 2020. Of course differing views are what make a market and not everybody is looking for positive returns for stocks next year. Morgan Stanley and UBS strategists have targets of 3,000 for the S&P 500 at the end of 2020, which would be about a -3% decline from November's close of 3,140.98. The Wall Street Journal surveys a group of more than 60 economists every month and the average recession probability in the next year has dropped from 35% in September to 30% in November. The chart to the left shows recession expectations from the same survey of when the next recession is expected to start, and for 2020 it is 34%, down from 42.5% in September.

<u>Bottom Line</u>: Yogi Berra famously quipped, "It's tough to make predictions, especially about the future." For most investors, the market prediction exercise is just background noise. Still, it does lend some insight into the collective sentiment of market participants and influencers. In November, the clear takeaway is that recession fears have diminished and optimism has expanded.

November 2019

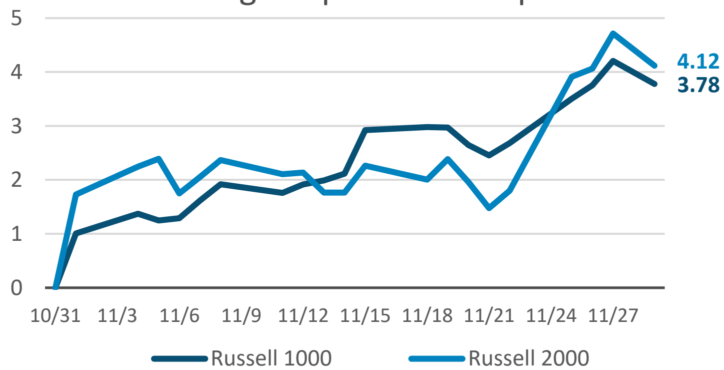
Equity Themes

MONTH IN REVIEW

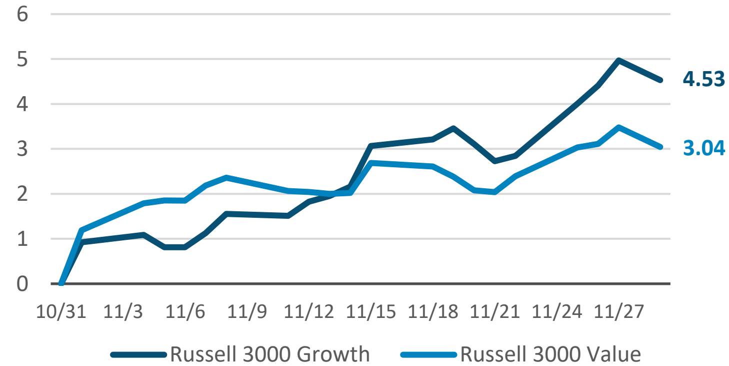
What Worked, What Didn't

- **Resurgence of Small Cap.** Large cap stocks, measured here by the Russell 1000, were up +3.8%, while small cap stocks, as measured by Russell 2000, were up +4.1%. After three months of outperformance small cap stocks have finally broken their downtrend relative to large cap stocks, which had been a glaring omission to this year's rally for small cap investors.
- **One and done?** After September's conclusive outperformance of Value over Growth many market watchers speculated the long-awaited Value resurgence was beginning. But it appears to be have been short-lived as Growth has dominated Value in the two months since September.
- **Small Growth is a consistent trend.** It isn't shown here but Small Growth performance over Small Value has been consistent for years now. Small Growth beat Small Value by about 3.5% in Nov. and has won in 65% of the last 60 months.

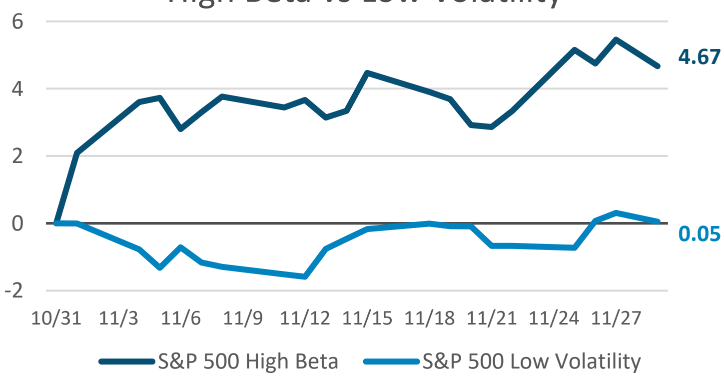
Large Cap vs Small Cap



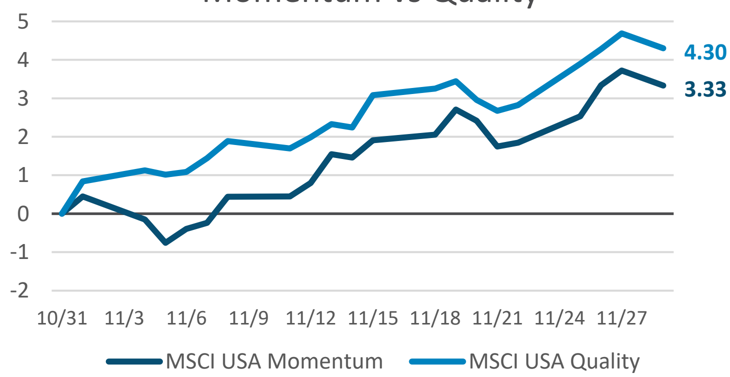
Growth vs. Value



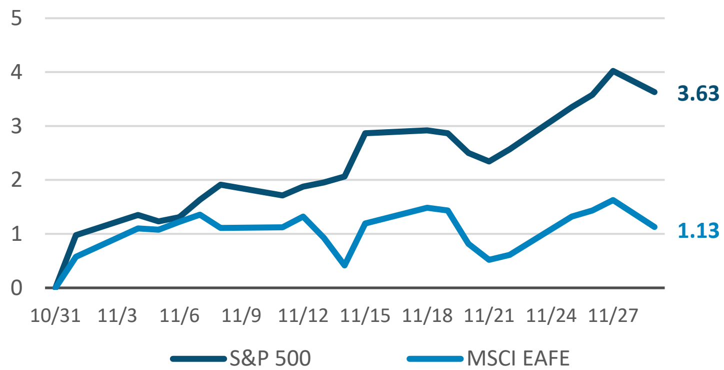
High Beta vs Low Volatility



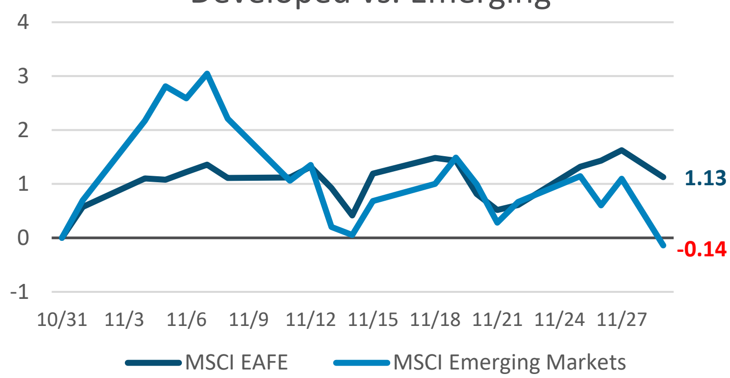
Momentum vs Quality



Domestic vs. International



Developed vs. Emerging



Source: Bloomberg.

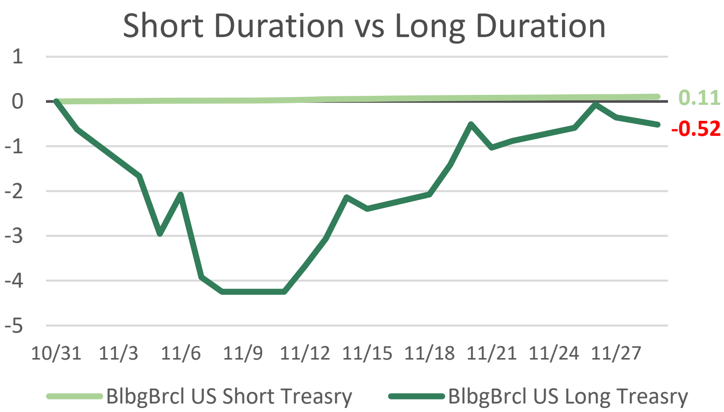
November 2019

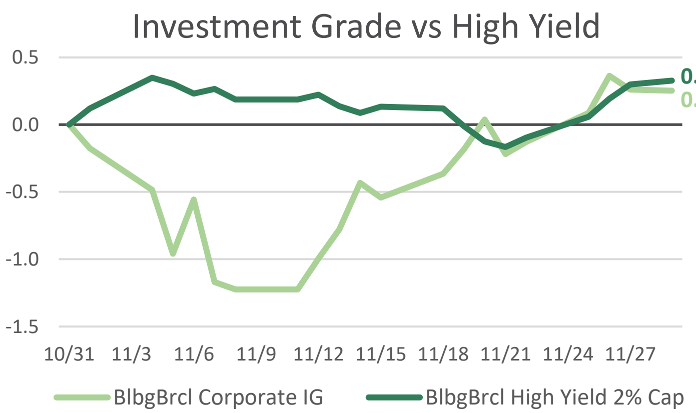
Bond Themes

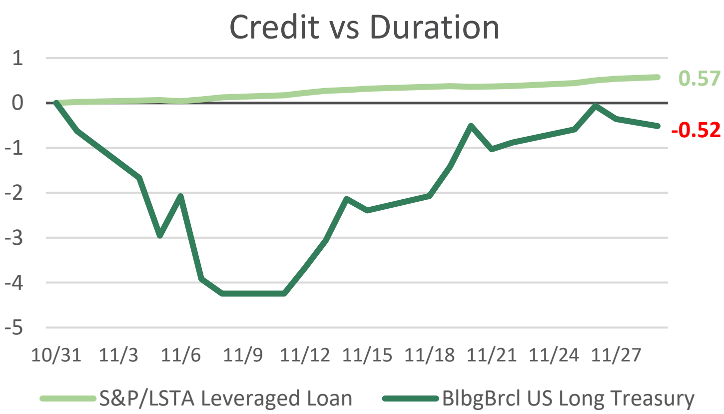
MONTH IN REVIEW

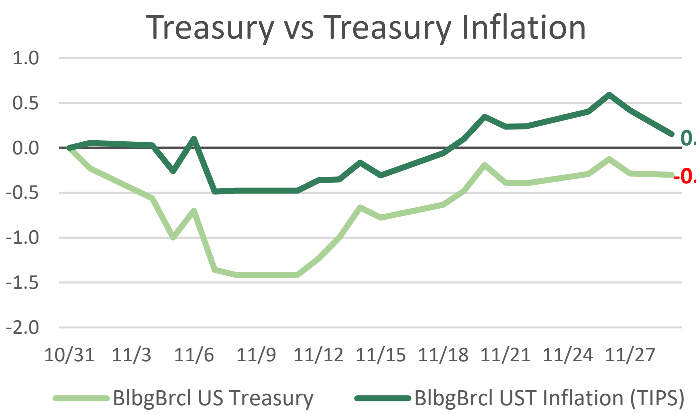
What Worked, What Didn't

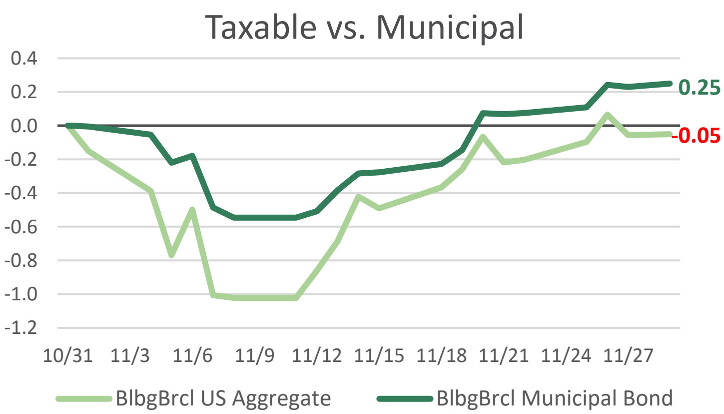
- **Another relatively uneventful month for bonds.** November ended with Treasury rates higher and the yield curve flatter following several economic releases at the end of the month that reflected better-than-expected data.
- **Spread sectors outperform Treasuries.** Most non-Treasury fixed income sectors outperformed similar duration Treasuries in November and the higher risk sectors added to their positive 2019 total returns. Fixed income total returns have been strong in 2019, ranging between 4% to almost 18% for intermediate or longer duration sectors.
- **International bonds underperform, again.** International bonds trailed their U.S. counterparts by 131 basis points in November, the largest gap since May of 2018. U.S. bonds have bettered international bonds in all but three months of 2019. As of Nov. 30, the Bloomberg U.S. Aggregate Bond Index was up +8.79% vs. +3.96% for the Non-U.S. index in 2019.

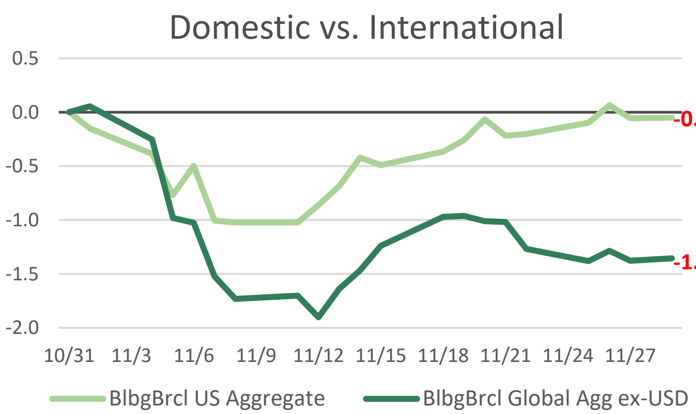












Source: Bloomberg.

November 2019

Asset Class Performance

MONTH IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

	Nov-01	Nov-04	Nov-05	Nov-06	Nov-07	Nov-08	Nov-11	Nov-12	Nov-13	Nov-14	Nov-15	Nov-18	Nov-19	Nov-20	Nov-21	Nov-22	Nov-25	Nov-26	Nov-27	Nov-29	Nov
High	SCG 1.71	EM 0.99	EM 0.57	RE 0.29	EM 0.73	SCG 0.45	IBD 0.27	LCG 0.32	RE 0.82	RE 0.80	MCG 0.89	RE 0.52	SCG 0.69	USB 0.24	HYB 0.02	HYB 0.38	SCG 2.50	RE 1.21	SCG 0.79	IBD 0.37	SCG 5.77
	SCV 1.63	SCV 0.98	SCG 0.29	USB 0.15	LCV 0.37	MCG 0.43	RE 0.23	MCG 0.30	MCG 0.27	MCG 0.46	LCG 0.85	MCG 0.26	MCG 0.50	RE -0.02	LCV -0.02	LCV 0.30	SCV 1.87	MCG 0.52	SCV 0.66	USB -0.12	MCG 4.91
	EM 1.50	MCV 0.62	SCV 0.09	LCG 0.04	LCG 0.32	LCG 0.40	MCG 0.15	USB 0.11	USB 0.18	USB 0.29	EM 0.79	USB 0.19	IBD 0.46	MCG -0.05	IEQ -0.13	IEQ 0.28	MCG 1.11	IBD 0.41	LCG 0.57	HYB -0.22	LCG 4.44
	MCV 1.27	LCV 0.61	LCV 0.06	LCV 0.00	IEQ 0.31	MCV 0.17	USB 0.02	SCG 0.10	LCG 0.12	LCG 0.27	LCV 0.66	LCG 0.17	EM 0.21	SCG -0.20	USB -0.14	MCV 0.27	LCG 1.03	LCG 0.36	MCG 0.51	RE -0.28	LCV 3.08
	LCV 1.12	IEQ 0.51	MCV 0.00	60/40 -0.04	SCV 0.28	LCV 0.17	LCG -0.02	IEQ 0.04	LCV 0.01	IBD 0.21	SCG 0.64	IEQ 0.12	LCG 0.21	60/40 -0.20	EM -0.21	MCG 0.27	EM 1.00	SCG 0.34	MCV 0.46	LCG -0.39	MCV 2.62
	MCG 0.97	HYB 0.21	HYB -0.10	IEQ -0.04	SCG 0.28	HYB 0.09	SCG -0.05	HYB 0.02	MCV -0.01	MCV 0.19	IEQ 0.63	60/40 0.07	RE 0.13	HYB -0.21	60/40 -0.23	SCG 0.23	MCV 0.83	MCV 0.17	LCV 0.37	LCV -0.39	SCV 2.23
	IEQ 0.89	60/40 0.19	IEQ -0.19	HYB -0.12	MCG 0.18	SCV 0.07	HYB -0.06	60/40 0.00	60/40 -0.06	60/40 0.12	MCV 0.54	IBD 0.03	SCV 0.10	LCV -0.29	LCG -0.33	SCV 0.21	IEQ 0.79	USB 0.14	RE 0.32	60/40 -0.43	60/40 1.25
	LCG 0.82	LCG 0.16	60/40 -0.22	MCG -0.17	MCV 0.10	60/40 -0.01	60/40 -0.11	LCV -0.01	IBD -0.09	EM 0.07	RE 0.53	LCV -0.07	USB 0.07	MCV -0.30	IBD -0.34	60/40 0.14	60/40 0.60	60/40 0.13	IEQ 0.26	MCG -0.62	IEQ 1.13
	60/40 0.65	SCG 0.06	LCG -0.30	MCV -0.21	60/40 0.00	IBD -0.03	IEQ -0.13	SCV -0.07	HYB -0.10	SCV 0.06	60/40 0.40	SCG -0.11	60/40 0.05	LCG -0.34	MCV -0.37	LCG 0.09	LCV 0.58	HYB 0.12	60/40 0.18	MCV -0.63	HYB 0.57
	HYB 0.43	MCG -0.09	MCG -0.37	IBD -0.21	HYB -0.05	USB -0.05	MCV -0.26	MCV -0.10	SCG -0.21	LCV 0.02	HYB 0.30	HYB -0.13	MCV 0.01	SCV -0.43	SCV -0.53	USB 0.05	RE 0.39	LCV 0.06	HYB 0.13	SCG -0.68	USB -0.03
	USB 0.03	USB -0.25	USB -0.37	EM -0.32	USB -0.47	IEQ -0.06	LCV -0.32	IBD -0.24	IEQ -0.35	SCG 0.02	SCV 0.22	EM -0.16	IEQ -0.13	EM -0.44	SCG -0.56	EM 0.00	HYB 0.27	IEQ -0.06	EM 0.12	IEQ -0.70	EM -0.09
	RE -0.07	IBD -0.44	IBD -0.68	SCV -0.58	IBD -0.48	RE -0.19	SCV -0.34	EM -0.65	SCV -0.63	HYB -0.06	IBD 0.04	MCV -0.16	LCV -0.19	IBD -0.48	MCG -0.70	IBD -0.10	USB 0.10	SCV -0.22	USB -0.12	SCV -0.71	RE -1.12
Low	IBD -0.10	RE -0.78	RE -1.63	SCG -0.64	RE -0.95	EM -0.91	EM -0.71	RE -0.70	EM -0.77	IEQ -0.28	USB -0.05	SCV -0.39	HYB -0.36	IEQ -0.63	RE -1.37	RE -0.33	IBD -0.20	EM -0.30	IBD -0.33	EM -1.57	IBD -1.90

Legend

- 60/40 Allocation (60/40)
- Large Growth (LCG)
- Large Value (LCV)
- Mid Growth (MCG)
- Mid Value (MCV)
- Small Growth (SCG)
- Small Value (SCV)
- Intl Equity (IEQ)
- Emg Markets (EM)
- U.S. Bonds (USB)
- High Yield Bond (HYB)
- Intl Bonds (IBD)
- Real Estate (RE)

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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