Strategic Investment Group®

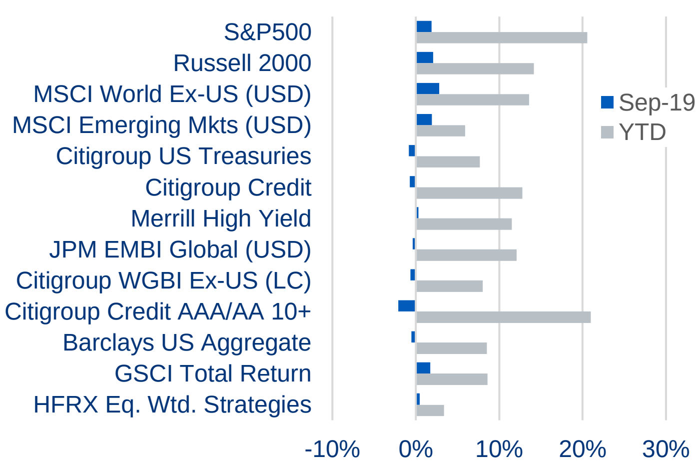
Global Market Review

Macro Summary

Global equity markets rose in September, buoyed by Fed and ECB easing, despite a series of potentially destabilizing geopolitical events and signs of weakness manifested in falling global trade and manufacturing output, a faltering European economy, and a slowdown in China. Global bond markets fell as yields bounced off August lows; only the U.S. high yield sector managed a modest gain. Despite a temporary spike in oil prices following the bombing of key Saudi refineries, oil prices ended the month lower. The dollar rose modestly against most major currencies as the Fed cut rates as expected.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



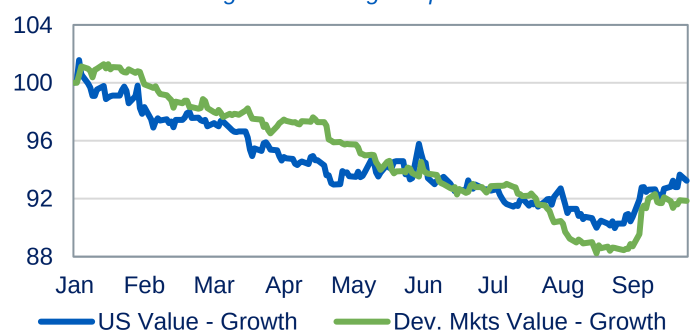
US Equities Remain Calm amid Turmoil

U.S. equity markets maintained their equanimity in September, despite a series of potentially disruptive catalysts. These included the launching of an impeachment inquiry into President Trump, calls for Boris Johnson's resignation following a ruling by the U.K. Supreme Court that his suspension of Parliament was illegal, and a drone strike against two Saudi refineries accounting for half of its production. Economic news also offered little reprieve as U.S. job growth dropped to a three month low in August amid weaker consumer confidence and more warnings signs that slowing trade is inhibiting investment and imposing a drag on global manufacturing output. Following a significant decline in August, the S&P 500 rose by 1.9% in September, buoyed by Fed easing and hopes that further disruptions to trade and manufacturing might be avoided by renewed Sino-U.S. trade talks.

U.S. stocks may have been calm in aggregate, but a longstanding equity trend reversed course in September. Value stocks narrowed the significant gap that had continued to widen with growth stocks this year, outperforming their counterpart by nearly 4%. This reversal was not isolated to U.S. stocks as developed non-U.S. markets saw the same trend in September (Exhibit below).

Value vs. Growth Trend Reverses in September

Source: Bloomberg. YTD through September 30.



Across U.S. sectors, financials led, rebounding from their August losses, and energy rallied strongly following the supply shock caused by the Saudi attacks. Only the healthcare sector suffered a modest decline. Returns were spread evenly across market caps, while large continues to lead small for the year through September.

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ECB Stimulus Supports Europe Equities

Global equity markets also rose in September on the back of mildly improved investor sentiment around US-China trade negotiations, as well as a rate decline and a new quantitative easing program in Europe. Brexit concerns and a weak manufacturing sector did little to faze investors in Europe as the MSCI Europe index ticked up 2.7%. In emerging markets, strong Chinese economic data brought some respite to emerging markets, driving the MSCI EM Index 1.9% higher.

In a continuation of the tumult that has ensued since Boris Johnson assumed office as UK Prime Minister, Parliament rejected his motion for snap elections, adding another blockade to his plan for a no-deal Brexit. The UK Supreme Court later ruled unlawful Johnson's decision to call for a prorogation that would suspend Parliament until mid-October, leading to calls for the Prime Minister's resignation. Investors took comfort in the news, sending Sterling up nearly 1% while UK equities gained 4.3% in September. Elsewhere in the Eurozone, investors grappled with the sharpest decline in manufacturing activity since 2009. Citing concerns of softening growth, the ECB cut its main depositary rate by 10 basis points (to -0.5%) and restarted its quantitative easing program, which will see €20 billion in net asset purchases per month.

Emerging markets took comfort from early optimism around U.S.-China trade negotiations scheduled for October and encouraging economic data from China. Initial estimates of the purchasing managers' index showed that manufacturing activity rose more than expected in September. The optimism spread across Asia, with the MSCI EM Asia Index gaining 1.8% for the month.

Central Banks Inject Optimism

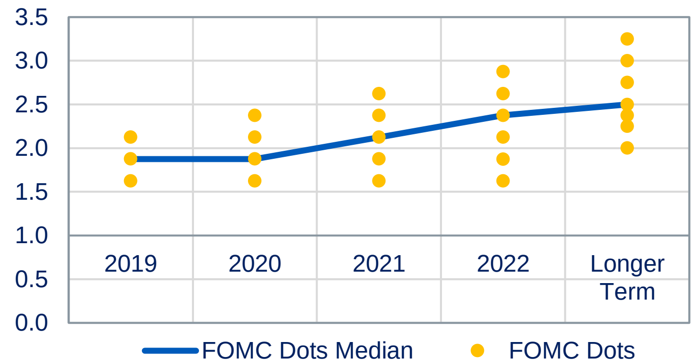
Treasuries and investment grade debt gave back some of August's gains as yields rose across developed markets. Central bank easing from both the ECB and the Fed injected a bout of optimism into the markets, driving investors out of defensive assets and yields upwards.

The ECB launched its largest stimulus package in three and a half years in September, a swan song for outgoing ECB president Mario Draghi and an essential guarantee of prolonged negative interest rate policy for his successor. The Federal Reserve also cut rates another 0.25% in September, but delivered mixed messages regarding the rate outlook moving forward. Fed members were split evenly among the following views: rates should not have been cut at all, the current rate level is appropriate, and one more cut will be necessary this year. Uncertainty reigns beyond the 2019 horizon as well. The median Fed projections plot an upward trend in the coming years, but with increasing divergence among its members (Exhibit below).

The Fed also made headlines after a temporary liquidity squeeze in the overnight repo market drove a spike in short term yields in September. Fed regulations of the financial sector and a concentration of liquidity among the largest U.S. banks may have been the culprit as the financial giants chose not to lend to alleviate the lockup. Instead, the Fed injected funds into the repo market to stabilize overnight rates, which had skyrocketed to 10% at one point. Although the events drew sensational headlines, the episode seems to represent little more than a belated reversion by the Fed to pre-crisis techniques of managing short-term liquidity.

Fed Rate Expectations on the Rise, but Consensus Wanes

Source: Bloomberg. Dots represent individual votes.



Equity Hedge Funds Rise

Equity market strength buoyed equity market neutral and long/short hedge fund returns in September, contributing to gains of 1.7% and 0.9%, respectively. Elsewhere, global macro strategies struggled after volatility faded from its August peaks. The global macro index fell 1.1% over the month, but remains the best performing hedge fund index for the quarter, with gains of over 2.4%. Against this backdrop, the HFRX Equal Weighted Strategies index posted a modest rise of 0.5%.

Saudi Supply Shock Shakes Markets

Following the drone strike on Saudi Arabia's oil production hub, Brent crude soared 20% to nearly $72 per barrel early in the next day's trading. However, prices quickly retreated as investors took stock of the plentiful global oil supply that could be tapped to alleviate a prolonged supply shock, and oil prices ended September slightly lower. The GSCI gained a modest 1.7%.

Performance of Major Market Indices through 9-30-2019

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	1.9%	1.7%	20.6%	4.3%	13.4%	10.8%
Russell 2000	2.1%	-2.4%	14.2%	-8.9%	8.2%	8.2%
MSCI World Ex-US (USD)	2.8%	-0.9%	13.6%	-0.9%	6.5%	3.1%
MSCI Emerging Mkts (USD)	1.9%	-4.2%	5.9%	-2.0%	6.0%	2.3%
Citigroup US Treasuries	-0.8%	2.4%	7.7%	10.4%	2.2%	2.9%
Citigroup Credit	-0.7%	3.2%	12.8%	12.8%	4.4%	4.6%
Merrill High Yield	0.3%	1.3%	11.5%	6.3%	6.1%	5.4%
JPM EMBI Global (USD)	-0.4%	1.3%	12.1%	10.7%	3.8%	5.1%
Citigroup WGBI Ex-US (LC)	-0.7%	2.9%	8.0%	9.7%	2.3%	3.6%
Citigroup Credit AAA/AA 10+	-2.1%	6.4%	21.0%	22.6%	6.5%	7.8%
Barclays US Aggregate	-0.5%	2.3%	8.5%	10.3%	2.9%	3.4%
GSCI Total Return	1.7%	-4.2%	8.6%	-16.3%	1.5%	-11.7%
HFRX Eq. Wtd. Strategies	0.5%	1.1%	3.4%	-0.7%	1.2%	0.6%