December 2019

Monthly Market Commentary

Markets continued their march upward in November with the third quarter earnings season coming to an end. Earnings were better than expected while projections for the fourth quarter have been revised down. Aggregate S&P 500 sales and earnings for the third quarter were 3.5% and -1.1% YoY, respectively.

- Utilities, Healthcare, and REITs led the highest earnings growth of 9.7%, 8.1%, and 6.7% YoY, respectively.
- Energy, Materials, and Technology had negative earnings growth of -37.6%, -14.4%, and -5.8% YoY, respectively.
- Overall, sales and earnings continued to slow on an aggregate basis.

We continue to believe earnings are trending lower and remain cautious on adding to our positions. Most of the performance YTD has come in the form of corporate earnings multiple expansion rather than growth in corporate earnings, which may not be sustainable in the long-term. Markets seem to be ignoring deteriorating economic data and fundamentals with optimism of a trade resolution and an inflection in economic data overseas. We do see some positive data emerging out of the Eurozone, which may not be a clear acceleration but seems to be stabilizing at the margin for now. As a result, we have increased exposure in areas that we see a much more favorable risk/reward ratio heading into 2020. Overall, we still see elevated risks as economic data and earnings slow, while uncertainty on a trade deal and elections loom for the foreseeable future.