October 2019

Monthly Market Commentary

September marks the end of the third quarter. Looking back at the relative performance of equity sectors in the last quarter, defensive sectors including Utilities, REITS, and Staples lead outperformance, while Healthcare was the lone defensive sector to underperform. Looking further back over the last twelve months paints a similar picture. Defensive sectors led equity performance, recording double digit gains vs low single digit gains over the same period for the S&P 500. Energy, Materials, and Industrials which are more cyclical in nature, were the worst performing sectors in the last quarter, as well as, over the last year. We believe outperformance over this period is consistent with late cycle dynamics and economic data that continues to slow from its cycle peak recorded in Q3 2018. Globally, economic data continues to slow with the global PMI's decelerating for a fourth consecutive month and currently stands at 49.5 for the month of August 2019. US Durable goods also continued to show weakness, slowing to -3% YoY and marking its fourth month of negative YoY growth in the last five months. Earnings season is around the corner and estimates for aggregate earnings declined -3.7% for the S&P 500 in Q319. Over the last three months, earnings have been revised lower from an aggregate expectation of -0.6% at the start of the quarter. As we progress towards the end of the year, we expect economic data to improve marginally considering easier compares once we cycle through the peak economic and earnings data reported in Q318. We continue to maintain a defensive posture in our portfolios but are likely to increase exposure if we see signs of positive inflection in either PMI's or reported economic data.