

Rebounding from October Lows – 11/06/18
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Global markets rebounded sharply off of the October lows with the MSCI World Index gaining 2.79% and the S&P 500 gaining 2.45%. We are still off from market highs. Corrections are normal in a healthy market but it may take some time to build up confidence in the markets. Defensive stocks are performing somewhat better in this environment.

Upcoming US Elections

The US midterms take place on Tuesday. Polling data suggests the Democrats have roughly an 88% chance of taking the House of Representatives while the Republicans have an 80% chance of retaining control of the Senate. While there is no guarantee, there is a strong quantitative track record of positive returns during election months. Splitting the US government across party lines may be the best of both worlds as the tax cuts from President Trump have already gone through and the Democrats may curb the scope of the trade war.

Key Economic Data

Positive economic news coming out of the US amidst the backdrop of poorer international prospects helped buoy the US markets. The Bureau of Labor Statistics reported a strong 250k increase in non-farm payrolls, beating the market estimates by 50k. Initial jobless claims slightly exceeded expectations but we in line with consensus. Consumer confidence continues to be track near all time highs. The only other times this was seen in history were around 2000 and 1969. It's worth noting that when sentiment has been this high, we usually see a drop in the equity markets in the corresponding year.

Brazilian Election

Jair Bolsonaro won the Brazilian election. Brazils markets rallied on the news of the extreme right-wing candidate winning the election. This is largely because there is an expectation that he will move the Brazilian markets towards a more westernized version of the free market. The Brazilian markets have rallied approximately 31% since the likelihood of a Bolsonaro win became more realized. At this point, much of the gains are probably reflected in the stock prices. The challenge now will be getting policies through a government where Bolsonaro lacks core support in the legislative branch.

Conclusion

US markets are behaving more like they are in the late phase of the business cycle. While it is not guaranteed, it looks like we may get a decent rebound heading into the end of the year as there is strong historical precedent for a November rally in election years and December tends to be one of the better performing months in the year. That would be enough time to lull everyone into complacency.

Looking ahead to next year, we have some challenges in the form of continued rising interest rates and potential inflation picking up (as a result of lower unemployment and the effects of tariffs flowing through to consumers). We are continuing to monitor the situation.



Stock Market Performance

	11/6/18	W-o-W	M-o-M	Y-o-Y
DJIA	25,622	3.0%	-3.1%	8.8%
S&P 500	2,747	2.4%	-4.8%	6.0%
MSCI World	2,041	2.2%	-5.1%	-0.3%
S&P/TSX	15,278	2.6%	-4.2%	-5.1%
BSX	2,426	6.4%	-15.7%	11.1%
FTSE100	7,041	0.1%	-3.8%	-6.9%
DAX	11,484	1.7%	-5.2%	-14.7%
CAC	5,075	1.9%	-5.3%	-7.8%
Nikkei	22,148	3.2%	-6.9%	-1.8%
Hang Seng	26,121	6.2%	-1.7%	-8.7%
Shanghai	2,659	3.6%	-5.7%	-21.5%

Key Rates and Prices

Currencies	11/6/18	Month ago	Year ago
EUR	\$1.14	\$1.15	\$1.16
GBP	\$1.31	\$1.31	\$1.32
JPY	¥113.46	¥113.72	¥113.71
CAD	\$0.76	\$0.77	\$0.79
CHF	\$1.00	\$1.01	\$1.00
AUD	\$0.72	\$0.71	\$0.77

Fixed Income

3M LIBOR	2.59	2.41	1.40
3M Treasury Bill	2.35	2.21	1.18
2Yr Treasury Note	2.93	2.89	1.62
10Yr Treasury Note	3.22	3.23	2.32
Fed Funds Rate	2.25	2.25	1.25

Commodities

Gold/oz.	1,226.46	1,202.95	1,282.08
Silver/oz.	14.53	14.65	17.23
Copper/lb.	2.81	2.80	3.16
Oil	62.14	74.34	57.35

Global Economic Calendar (November 5th — November 9th)

Wed: Industrial Production (DE); EIA Petroleum Status Report (US); Consumer Credit (US)

Thurs: Jobless Claims (US); Money Supply (US); EIA Natural Gas Report (US)

Fri: Baker-Huges Rig Count (US)

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