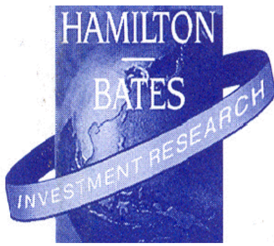

Hamilton-Bates
Market Update

November 8, 2019

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New Highs, Bull Markets, and Recessions
The pessimists have been proven wrong as the market pushes to new all-time highs this week on the back of a solid jobs report. You can't keep a good market down, even after a brief stumble in August as trade war concerns saw bond yields plunge and a yield curve inversion (when long-term rates are higher than short-term rates)—this in turn triggered recession fears.

We take the yield curve inversion seriously, but the timing of the bearishness was all too soon, yield curve inversions aren't triggers of a recession but signals that one could be out there many months in the future. In the past yield curve inversions have seen the market bottom on any immediate weakness and rally 5-10% over the next 1-2 quarters or more. This is pretty much what we have seen in 2019. Too much negative sentiment was built up at once and the market dropped in August, only to rebound as imminent recession fears proved unfounded or at the very least-way too early.

Economics& the Fed—October Jobs Report a Big Win
Over the past week or so we have seen a few pieces of data that don't necessarily negate a general slowdown of growth, but rather show a more measured drop in growth. The 3Q GDP estimate came in below the 2% + level, but only at 1.9%- showing a slowing of momentum but not a brick wall crash. We then got the big one—the latest jobs report which was 'feared' to show little or no job creation.

Analysts were modeling only 85,000 new hires, but 128,000 jobs were accepted last month. Another 95,000 worth of revisions were added to correct understated job growth figures for previous months this year. That figure thoroughly dashed the argument that the economy is in immediate recession mode. Last month's 128,000 isn't too far down from the average payroll-growth pace of 167,000 jobs so far this year, and the Job Openings figure from the early October JOLTS report stands at a near record 7.1 million as of August.

In short, individuals are 'getting off the sidelines,' and accepting job offers that pay too well to pass up. Strength in demand for workers, lies in how much employers are paying people to come on board, and stay on board. Hourly wages were up 0.1% from September's level, translating into year-over-year growth of 3.0%. That's better than inflation and a strong figure.

In sum, despite any naysaying, it was another winner. The strength of total wages is offsetting some of the impact of the tariff war with China. That's allowed the S&P 500's third quarter earnings thus far to come in a little better than expected, even if markedly lower on a year-over-year basis (Ex-Materials and energy which have been brutal things weren't nearly as bad). **Global growth may be slowing but not as much as feared in August. That alone was enough for stocks to rebound. But like a too good to pass up infomercial deal—there is more.**

The Fed has recently resumed adding liquidity to the financial system, but they aren't calling it QE anymore. Its semantics however, since the liquidity they are adding will invariably find its way to risk assets. This renewed program was done in reaction to a freeze-up in the repo market, which essentially provides funds for big banks. The have added a whopping $250 billion in the past month, and are likely to add tens if not hundreds of billions in liquidity over the duration of this new program into mid-2020. Needless to say this is very supportive for the financial markets and is likely to boost the market into early next year.

Market Outlook
Stocks started last week on the right foot, and ended it even more bullishly. All told, the S&P 500 ended the

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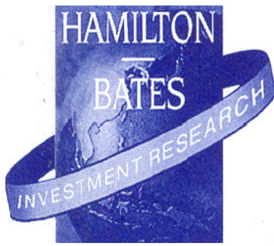

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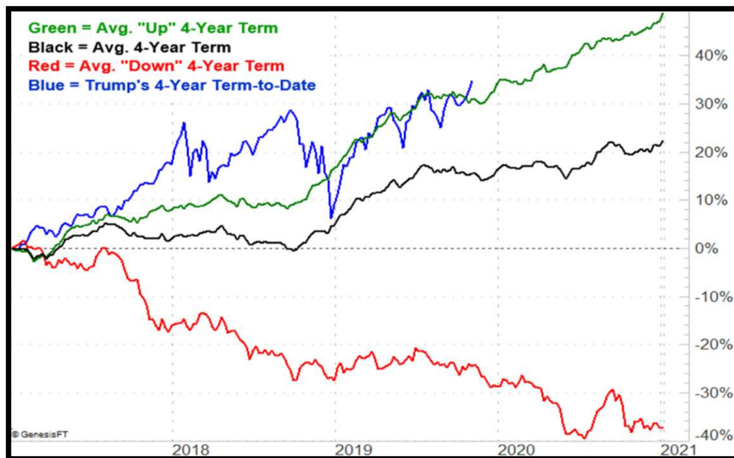
week with its best daily move of the five-day stretch, rallying 1% on Friday in response to an impressive jobs report, to cap off what ended up being a 1-2% weekly gain for the major averages.

There are still potential problems ahead. Namely, the market is overbought, and some would say is overvalued. It's also bumping into well established technical resistance at a time of year we should be peeling back just a little, in order to set-up the usual year-end bullishness. We would not be surprised to see the market pull back 1-3% before surging into the seasonally favorable year-end period. We'll see if that's the shape of things to come this time around.

Notable Charts



The top chart is the **S&P plotted against the presidential cycle**—the avg cycle in black, the 'up' cycles in green, and the 'down' cycles in red. The Blue line is the S&P since Trump's inauguration. So far it seems the market is following the average 'up' cycle, with a bit more volatility, and if this trend continues there are further gains to come in 2020. What will be a very contentious election cycle would seem to run counter to that. But historical precedent bears noting, and if the market follows history there is 10-18% gains still to come into 2020.

Market action has almost been too good. The **S&P 500** in the bottom chart has moved past horizontal ceilings (dashed line), and has also pushed above a rising technical resistance line that extends all the way back to the early 2018 peak (top bold black line). We are seeing by definition, a breakout. However, the market is now as close to being overbought as it was in May and July (red arrows), just before a couple of noteworthy selloffs. A small pullback would not shock us here.

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