Bell Bank
Wealth Management

# EQUITY & FIXED INCOME OUTLOOK NOVEMBER 2019

## Federal Reserve Monetary Policy

At its October 30 meeting, the Federal Reserve took the step of reducing the high end of the Fed Fund rate from 2.0% to 1.75%, lowering it another 25 basis points. At the post-meeting news conference, Federal Reserve Chair Jerome Powell suggested monetary policy is now in a "good place," leading investors to believe the Fed will *not* reduce rates at its December meeting. A December cut currently is a 28% probability, according to market expectations.

## Inflation

The most recent year-over-year inflation rate was 1.7%, with the next release scheduled for November 13. We look for the rate to be in the range of 1.6% at that announcement. We are increasingly convinced it will take something other than Federal Reserve policy to push inflation higher.

## Economic Activity

Strong October job numbers and a Fed rate cut resulted in positive market momentum and reduced fears about the prospects of a near-term economic slow down.

Key economic drivers – jobs, wages and personal consumption – remain firmly in place. The index of leading economic indicators has been mostly level for the last year. The return of growth in these indicators would put economic foundations even more firmly in place. The Institute of Supply Management manufacturing index increased in October, but it remains below 50%, where it has been for the last 3 months. A reading below 50% for this indicator suggests the economy is slowing. The bottom line is that key economic drivers are still strong, but other data is not necessarily singing the same tune. Keep in mind that consumption makes up about 70% of gross domestic product (GDP), while manufacturing is about 11%.

There are currently 7,051,000 job openings in the U.S., suggesting that opportunities remain in place for those who possess the needed skills. Last year at this time, there were 7,342,000 openings, and two years ago, there were 6,352,000 jobs available.

The top 10% of wage earners in the U.S. made at least $145,135 of adjusted gross income. This group of people paid 70.1% of all individual federal income taxes in 2017.

## Fixed Income

Yields on the 10-year U.S. Treasury bond remain at 1.67%, near where they started the month. Throughout October, the yield covered a lot of ground, recording a low of 1.53% and a high of 1.84%. The market continues to struggle with the question of whether the economy will get enough traction to grow moving forward or will slip into a slowdown. The yield volatility in bonds reflects that conflict.

The first five years of the yield curve have become very flat, with all Treasury maturities in the range yielding about 1.5%. For now, current yields have erased the inversion that spurred market fears of a recession on the horizon.

## Stock Market

Throughout the month, the growing probability of a Fed interest rate reduction provided enthusiasm in the stock market. Popular indexes are up around 20% so far this year. Growth stocks have outperformed value, and domestic stocks have outperformed foreign.

Third-quarter earnings for the S&P 500 are down 2.53% as I write. It is curious that market direction responds to any Fed rate cut more than it does the direction of earnings.

The market seems to have discounted the prospect of a slowdown in the coming 12 months. That is also helping stocks.

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**Years of Investment Experience:** 34 years
**Education:** Greg holds a bachelor's degree in business from the University of North Dakota and is a CFA charter holder.