Weekly Market Notes

December 9, 2019

Dow Industrials 28015
S&P 500 3145

BAIRD

Please refer to Appendix – Important Disclosures

Stock Market Outlook

The Labor Department reported last week that the U.S. economy added 266,000 new jobs in November, well above the 188,000 that economists had expected and provided the markets with another boost. The unemployment rate dipped to 3.5% and average hourly wages ticked up. The jobs data underscores the strength of the consumer and the U.S. economy.

The markets this year have been resilient in the face of trade concerns and slower global growth. The factors that have driven and should continue to drive the markets in 2020 are the strength of the consumer, monetary policy, trade and the global economy.

Economy and the Strength of the Consumer

Robust job growth, rising wages, and lower interest rates should continue to support the consumer. In addition to the above-mentioned jobs numbers, the University of Michigan's Consumer Sentiment Index edged up in December to the highest level in six months suggesting consumers are optimistic for both current and future economic conditions. The good news, however, is offset by the Conference Board Leading Economic Index (LEI) which declined for the third month in a row indicating the economy will end on a weaker note. Additionally, the ISM Manufacturing Index fell in November to the second-lowest reading since early in 2016 and the fourth consecutive month below 50 (a reading below 50 indicates contraction). While it is very hard to see a recession within the next 12 months with record-low unemployment and rising wages, the weak manufacturing sector and geopolitical uncertainty suggest the economy will remain in a slow-growth mode with most economists forecasting 1.80% GDP for 2020.

Monetary Policy

The Federal Reserve Open Market Committee meets this week and is widely anticipated to keep the fed funds level at 1.50% to 1.75%. Fed Chair Jerome Powell is on record indicating that monetary policy is now on hold with future moves subject to fresh incoming data. The Federal Reserve raised its fed funds target rate four times in 2018. The final increase in December last year sent stocks spiraling downward. This year the Federal Reserve has cut its fed funds target rate three times. As a result, economic prospects have improved and stocks have fully recovered from the 2018 experience.

Additionally, the global economy appears to be stabilizing. This is important as the Fed's concern has been that the weakness in overseas economies could bleed into the U.S. The fact that global PMI data improved for the fourth consecutive month in November suggests the global economy is stabilizing. Given the strengthening PMI numbers, easy global monetary policy and improving trade prospects, evidence is building that the global economy may be bottoming, and could return to modest growth in 2020.

Trade

On Friday when the jobs numbers were announced, investors sent the stock market averages close to the record highs, largely ignoring the news from the White House that the phase one trade deal with China may be delayed until early next year. It's apparent that the large issues between the U.S. and China, such as intellectual property theft and forced joint ventures, are not going to be resolved in the foreseeable future. More importantly, the United States Mexico Canada Agreement (USMCA) could soon be passed by Congress. This agreement will benefit all 50 states from Wisconsin dairy farmers who will have access to Canadian markets to Detroit auto manufacturers where it will be required that 75% of auto parts be built in North America, preventing offshoring of our auto industry, and much more.

Bottom Line

This is the 11th year of an economic cycle with slower growth expectations on the horizon and with investor sentiment optimistic (a contrarian indicator), we are advising investors to diversify and to look at the long view. But all expectations are that the consumer will remain economically healthy and the Federal Reserve will remain accommodative suggesting moderate but positive returns on the S&P 500.

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	RS Ranking Current		RS Ranking Previous	RS Trend	Sub-Industry Detail	
Information Technology	1	**	1		*Leaders:*	Systems Software; Technology Hardware, Storage & Peripherals; Semiconductor Equipment; Semiconductors
					Laggards:	Communications Equipment
Financials	2	**	2		*Leaders:*	Diversified Banks; Investment Banking & Brokerage
					Laggards:	
Health Care	3	**	4	+	*Leaders:*	Health Care Services; Managed Health Care; Biotechnology
					Laggards:	
Communication Services	4	**	3		*Leaders:*	Alternative Carriers
					Laggards:	Publishing
Consumer Staples	5		6		*Leaders:*	Food Distributors
					Laggards:	Brewers; Distillers & Vintners
Industrials	6	**	5		*Leaders:*	Electronic Components & Equipment; Construction Machinery & Heavy Trucks; Trading Companies & Distributors
					Laggards:	Air Freight & Logistics
Materials	7		9		*Leaders:*	
					Laggards:	Fertilizers & Agricultural Chemicals
Utilities	8		7		*Leaders:*	
					Laggards:	Gas Utilities
Consumer Discretionary	9		8		*Leaders:*	Auto Parts & Equipment; Consumer Electronics; Homefurnishings; Homebuilding; Computer & Electronics Retail
					Laggards:	Automobile Manufacturers; Leisure Products; Specialized Consumer Services; Internet Retail; Department Stores
Energy	10		11		*Leaders:*	
					Laggards:	Oil & Gas Drilling; Integrated Oil & Gas; Oil & Gas Exploration & Production; Oil & Gas Storage & Transportation
Real Estate	11		10		*Leaders:*	Real Estate Services
					Laggards:	Health Care REITs; Retail REITs

*** Denotes Current Relative Strength-Based Overweight Sectors*

	Current		Previous			Indication (from contrarian perspective)
CBOE 10-Day Put/Call Ratio *Below 85% is bearish; Above 95% is bullish*	102%		98%			Bullish
CBOE 3-Day Equity Put/Call Ratio *Below 58% is bearish; Above 68% is bullish*	58%		60%			Neural
VIX Volatility Index *Below 14 is bearish; Above 28 is bullish*	14		12			Neutral
American Association of Individual Investors *Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish*	Bulls: Bears:	32% 29%	Bulls: Bears:	34% 30%		Neutral
Investors Intelligence (Advisory Services) *55% bulls considered bearish/more than 35% bears is bullish*	Bulls: Bears:	55% 17%	Bulls: Bears:	58% 17%		Bearish
National Assoc. of Active Investment Mgrs. (NAAIM) *Below 25% is bullish; Above 80% is bearish*	78%		73%			Neutral
Ned Davis Research Crowd Sentiment Poll	Excessive Optimism		Excessive Optimism			Bearish
Ned Davis Research Daily Trading Sentiment Composite	Optimism Fading		Excessive Optimism			Neutral

Appendix – Important Disclosures and Analyst Certification

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