BRENTON POINT WEALTH ADVISORS

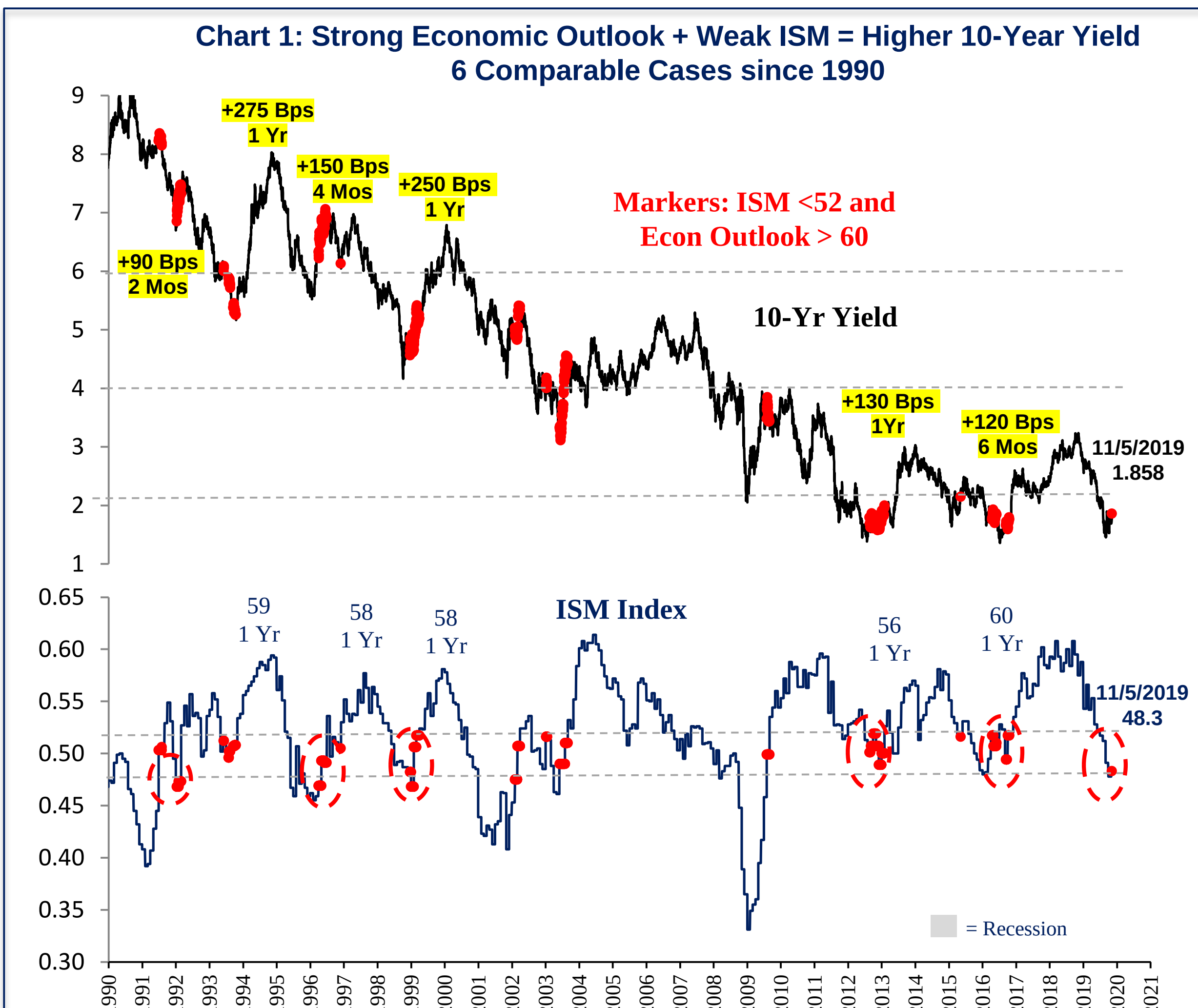
November 11, 2019

Investing Environment Review and Outlook – Volume 32

Reduced Long-Term Bond Rating

We cut the bond rating to a bearish 1 this month after the Fed announced they would again expand their balance sheet by purchasing $60 billion of Treasury Bills a month until April 2020. In prior cases of Fed purchases during three quantitative easing programs in 2009, 2011 and 2013, the 10-year yield rose in every case, between 1.2% and 1.5%. With rates so low, any rise in yields has a big effect on bond prices. For instance, the 10-year Treasury bond has a duration of 9.0, meaning that a 1% increase in yield translates to a 9% decline in price, 5x the current annual yield of 1.8%.

Separately, our economic outlook indicators reached 60 for the first time since April, suggesting the economy will likely accelerate unexpectedly in early 2020. In the 6 cases since 1990 when economic outlook indicators reached 60 and the ISM index was weak like today, the 10-year yield rose every time an average of 1.7% over the following year. In addition, the ISM index rebounded higher to an average of 58 (from 48) within a year.



This review and outlook report by Brenton Point Wealth Advisors LLC represents our views and beliefs regarding the current market outlook. Please also read the important disclosures at the end of this report.

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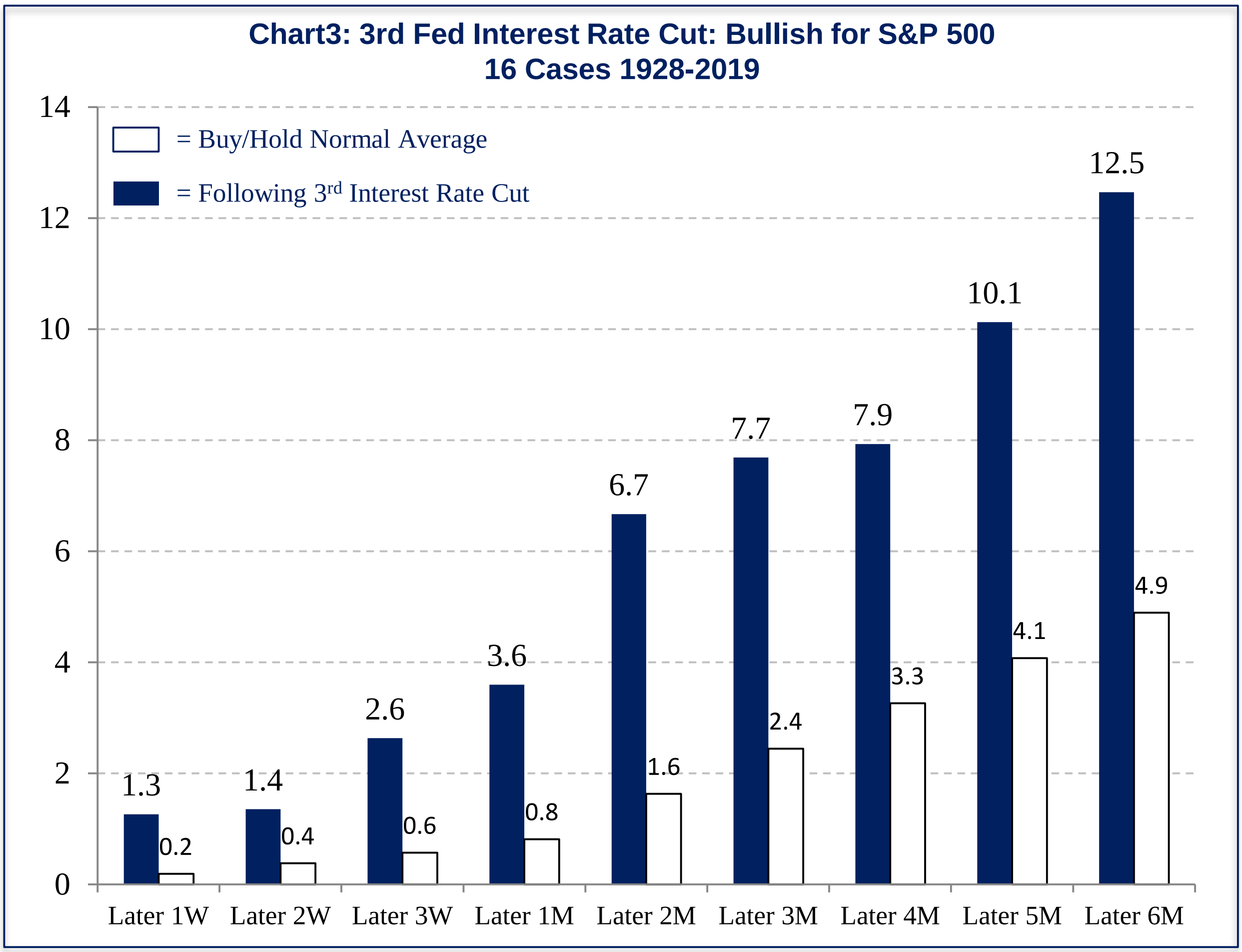
3rd Fed Interest Rate Cut: Bullish for S&P 500

On October 30th the Fed cut the Fed Funds target for the 3rd time this year, to 1.75%. In the 16 prior cases since 1928, the S&P 500 was up an average of 6.7% 2 months later and 12.5% 6 months out. There is no return lag for third cuts like we saw in last month's letter for 2nd cuts. Combining interest rate cuts with balance sheet expansion, the Fed is providing significant liquidity for stocks and bond yields to go higher.



S&P 500 Strong through October: Bullish for November and December

The S&P 500 was up 21.0% from January through October this year. Since 1950 there were 11 prior years that were up over 18% through October. The average return in November and December combined was 6.5%, and all were higher. The worst year was 1975 up 2.0% and the best year was 1954 up 13.6%. Recent cases were 2013 up 5.7% and 2003 up 6.2%. Also the next 5% move from November 1st was up in all the cases.

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In summary, Goldilocks conditions remain, the most bullish environment for stocks. However, this year the Fed and seasonality improve the odds further. The Fed is cutting rates and buying securities for their balance sheet, the most potent lever they possess. The fourth quarter is positive historically, but this year the conditions are stronger with the S&P 500 up 21% through October. Our U.S., foreign and emerging market stock ratings remain at a bullish 5 ranking. Commodities and gold rankings remain at a neutral 3, but we could see more favorable conditions ahead if the economy strengthens, as we expect. Thank you for your support and please contact your advisor with any questions.

Michael Schaus
Director of Market Research