GLOBAL EQUITY PERSPECTIVES 28 OCTOBER 2019

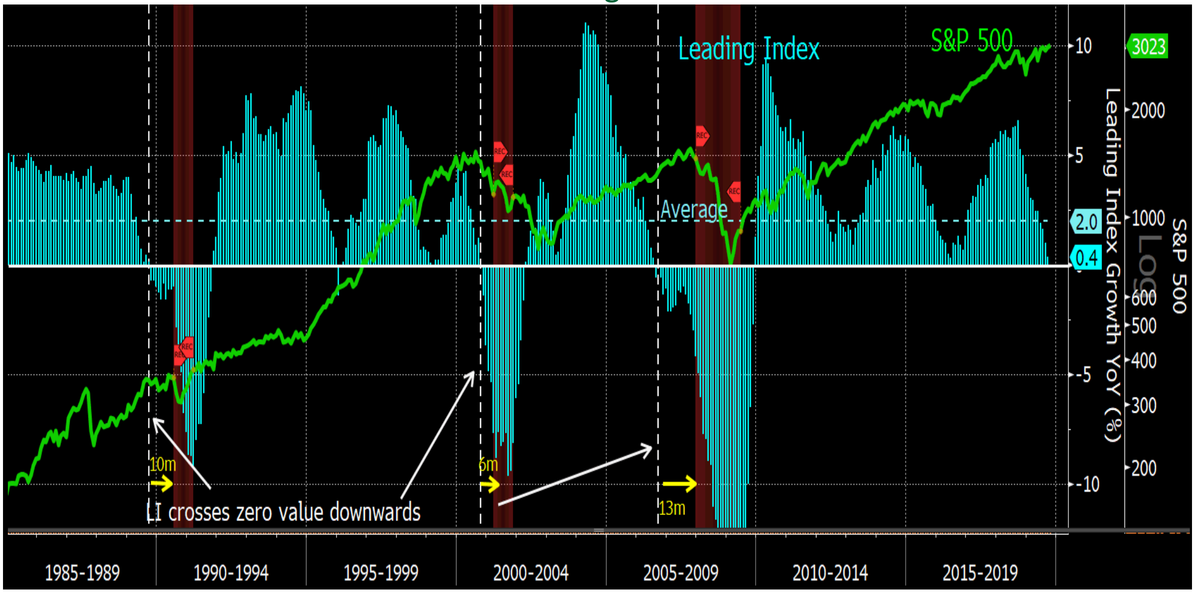
*"Investing isn't about beating others at their game. It's about controlling yourself at your own game."*

*Benjamin Graham*

## 1. MODERATION CONTINUING

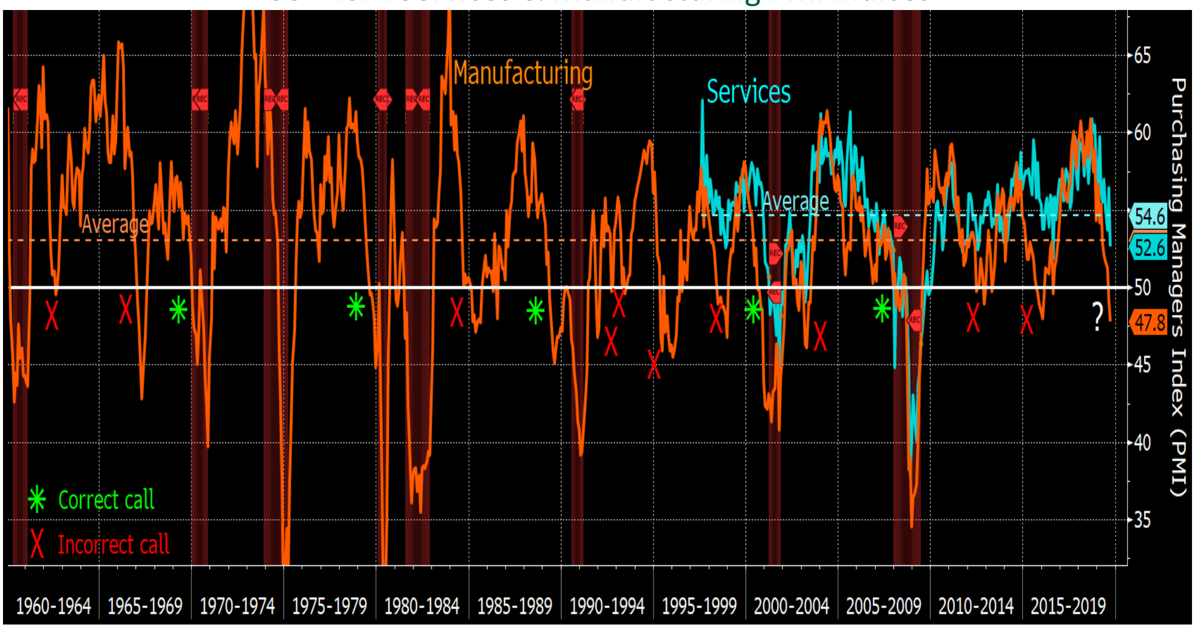
The outlook for the US economy continues moderating:

US – Conference Board Leading Economic Index vs S&P 500




The growth in the above leading economic index has dropped to an almost neutral level. This the lowest reading over the current economic cycle (though still positive). The Federal Reserve's recent cut of their target rate therefore seems the correct stance. Whilst this low level does not build further investor confidence, it does not yet raise particular alarm until future readings may consistently deteriorate. The current question, therefore, is whether we may be facing a repeat of the temporary weak 2016 period or otherwise further structural deterioration.

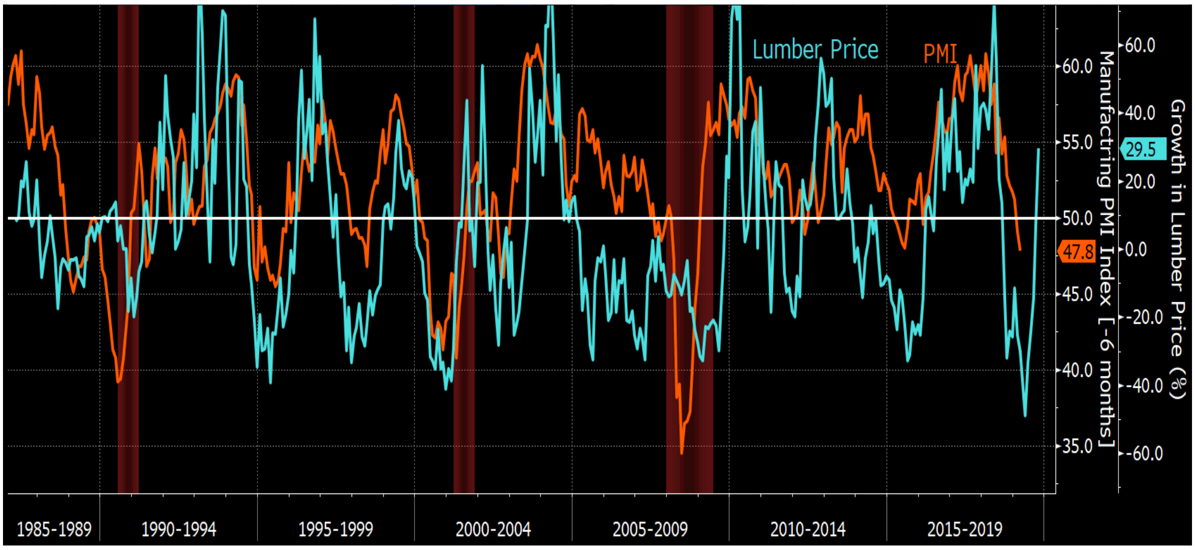
US – ISM Services & Manufacturing PMI Indices




*Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2019.* ***Past performance should not be used as a guide to future performance.***

The Service PMI is also moderating but remains in constructive territory (value >50). The Manufacturing PMI signals a negative environment (value <50) for understandable reasons, amongst others the strong Dollar and the weak global economy. We warn against too much pessimism about the Manufacturing PMI data – as reflected in the preceding chart it does not have a good record for indicating imminent recessions (double the number of incorrect vs correct calls).

US – ISM Manufacturing PMI vs Growth in Lumber Price (%)

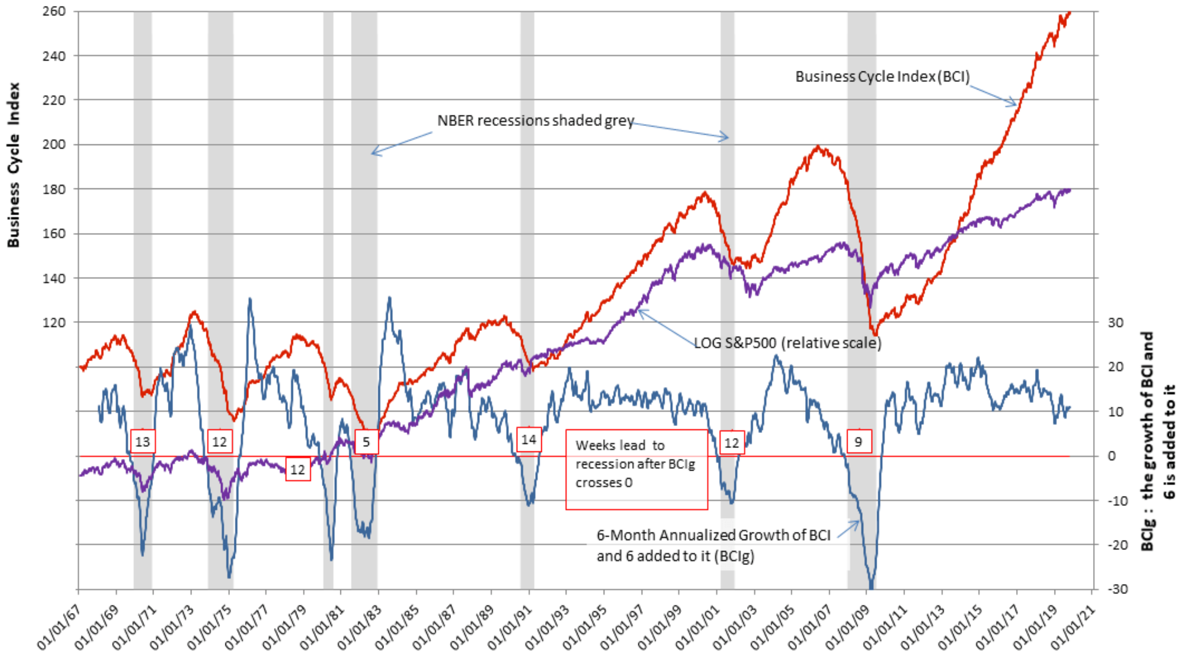



The US building industry is currently experiencing a revival. As reflected in the above chart, the lumber price serves as a good leading indicator for the Manufacturing PMI. The latter may respond positively on the increasing building activity.

The Services part of the US economy is seven times the size of Manufacturing. The wellbeing of the US consumer therefore remains by far the most important determinant of the economic outlook.

The following chart is designed to provide an early signal of an upcoming US recession:

iM Business Cycle Index (BCI)




The growth in the business cycle index (bottom part of the chart) has a good record of providing warning signals well ahead of time. It currently does not provide such a warning.

All-in-all, the moderation of the US economy continues, but we do not yet have enough negative data to foresee an imminent recession.

*Source: Bloomberg, iMarketsignals &Stonehage Fleming Investment Management Limited. October 2019.*

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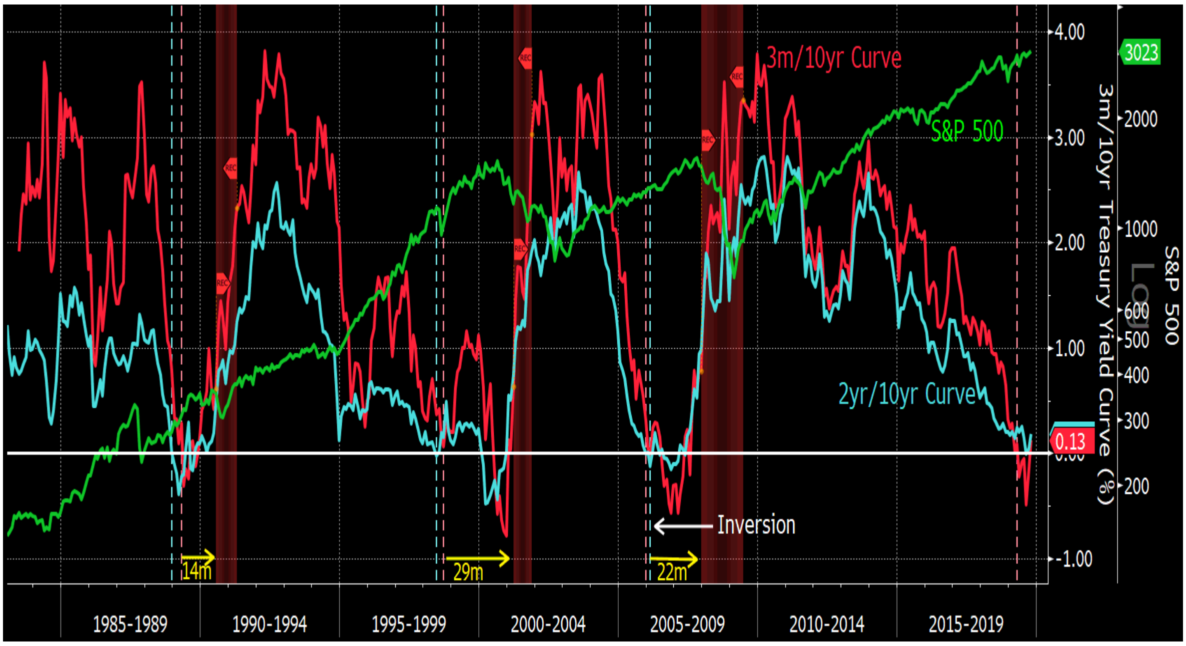
## 2. BOND MARKET MESSAGES

The bond market provides valuable information to assess issues also for equity investing.

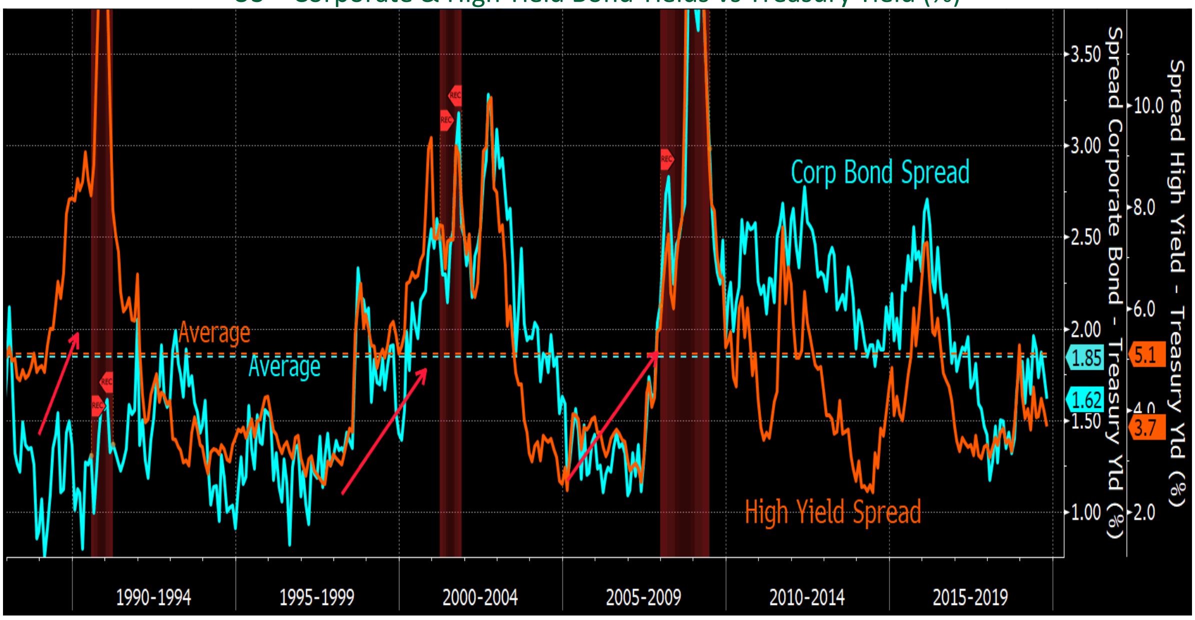
US 3m/10y & 2y/10y Yield Curves (%) vs S&P 500




Whilst many investors have been spooked by the 3m/10y yield curve that inverted earlier this year, it has since steepened and is currently in constructive territory, along with the more trusted 2y/10y curve. The long 10y/30y curve remained comfortably in constructive territory this year (not reflected in the chart), and is currently steepening further. It seems the Federal Reserve's cut has stabilised the bond market, and that it currently has more confidence in the US economic outlook than it did earlier this year.

Corporate debt investors are very effective in identifying changing economic circumstances early on. This market therefore provides particular insight also to equity investors.

US – Corporate & High Yield Bond Yields vs Treasury Yield (%)




The above chart reflects the corporate and high yield bond yield spreads with treasury yields. These spreads historically increase up well before the respective recessions (see the red arrows).

Whilst both series' spreads are currently in rising trends, they are still below their respective average levels. This reflects a calm corporate bond market with comfort to equity investors.

*Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2019.* ***Past performance should not be used as a guide to future performance***

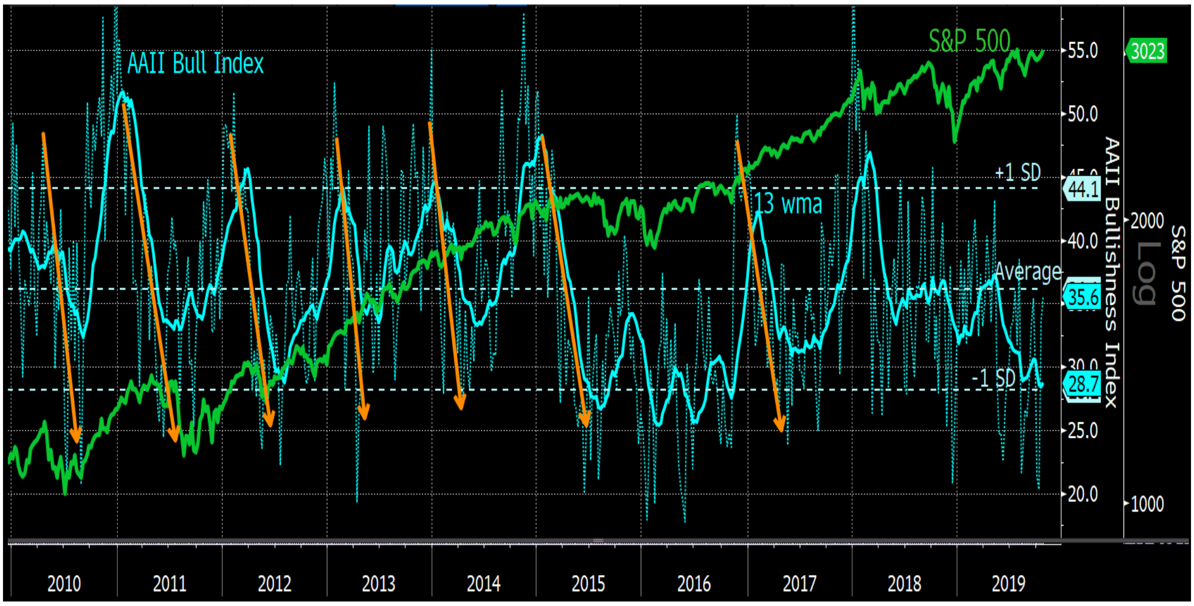
## 3. INVESTOR CONFIDENCE

The current equity bull market has been absent of investor exuberance and optimism for along time. The following charts reflect on this investor confidence issue:

US – State Street Institutional Investor Confidence Index vs S&P 500


The US institutional investor has been saddled with low confidence for more than eighteen months. Their current confidence level is close to a record low. This supports our impression that they have been withdrawing funds from the market for most of this year.

US – American Institute of Individual Investor Bullishness Index vs S&P 500



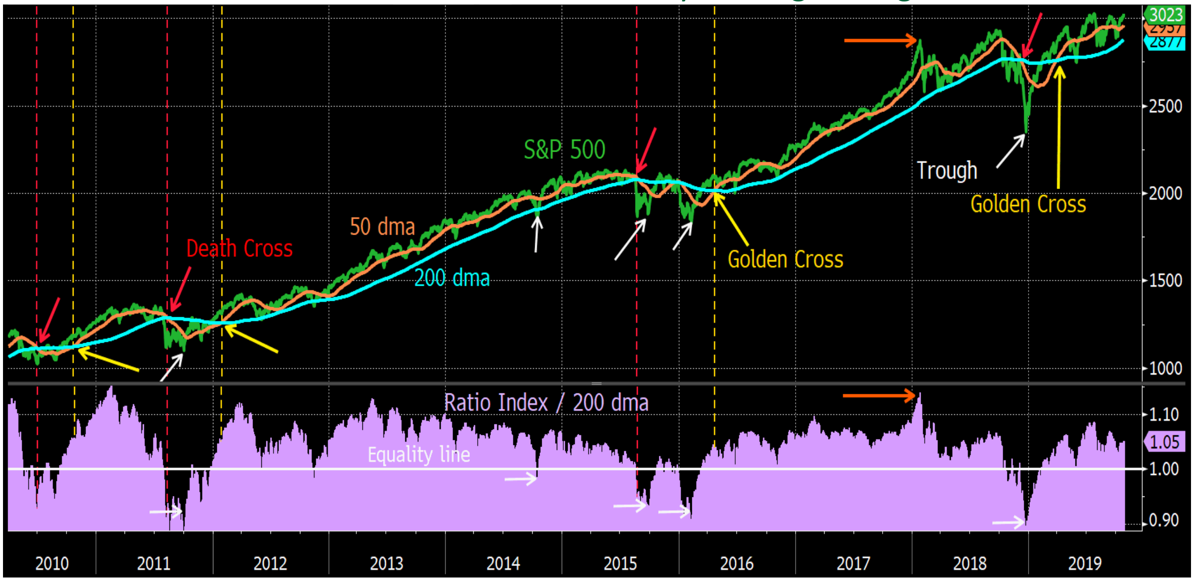

The above index of the bullishness level of the US individual investor is also currently at depressed levels, with the last high bullish readings back in early 2018 only. This retail investor market has clearly also predominantly been on the sidelines.

Ironically, the levels of investor optimism often act as good contra signals, as can be seen in the above chart. The current depressed investor optimism levels imply that astute investors may have good opportunities to consider. With such an abundance of investor pessimism we should not expect any high levels of new buying activity anytime soon.

*Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2019.* ***Past performance should not be used as a guide to future performance.***

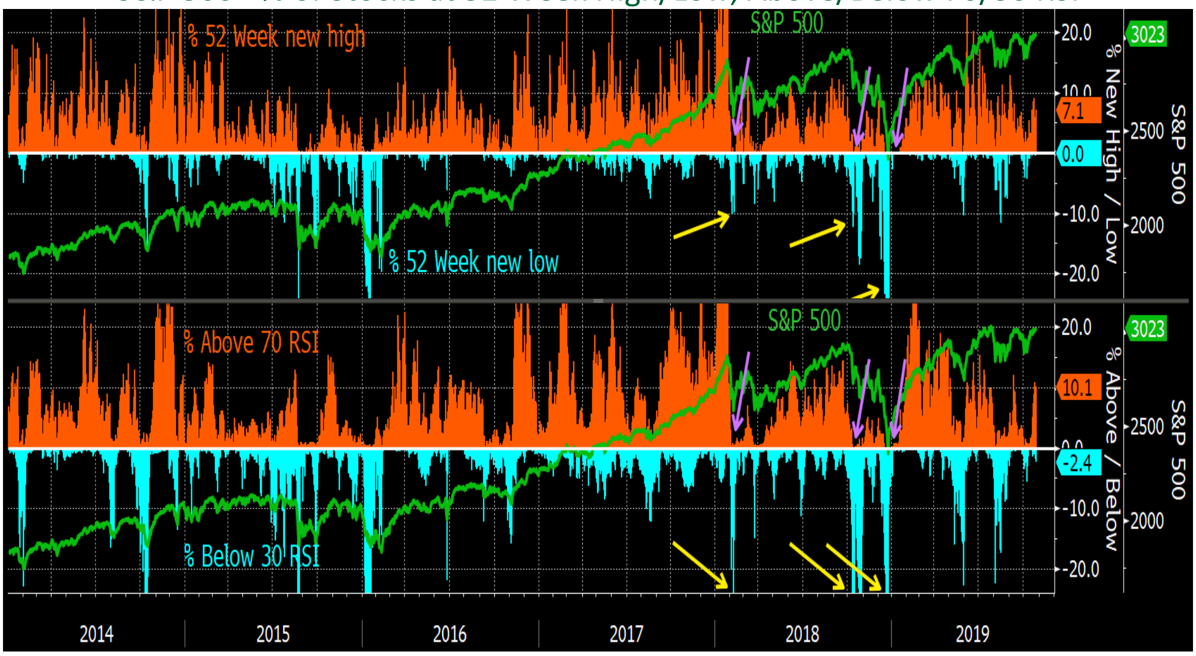
## 4. TECHNICAL PICTURE

S&P 500 with 50- and 200-Day Moving Average




The S&P 500 reached record levels. With both the 50 and 200-day moving averages in rising trends, its technical picture seems healthy.

S&P 500 - % of Stocks at 52 Week High/Low, Above/Below 70/30 RSI




The percentage of S&P 500 stocks that reached their respective 52-week new highs/lows and with their RSI's above/below 70/30 levels with mildly overbought levels reflect a healthy technical picture.

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