Before the Bell

Morning Market Brief

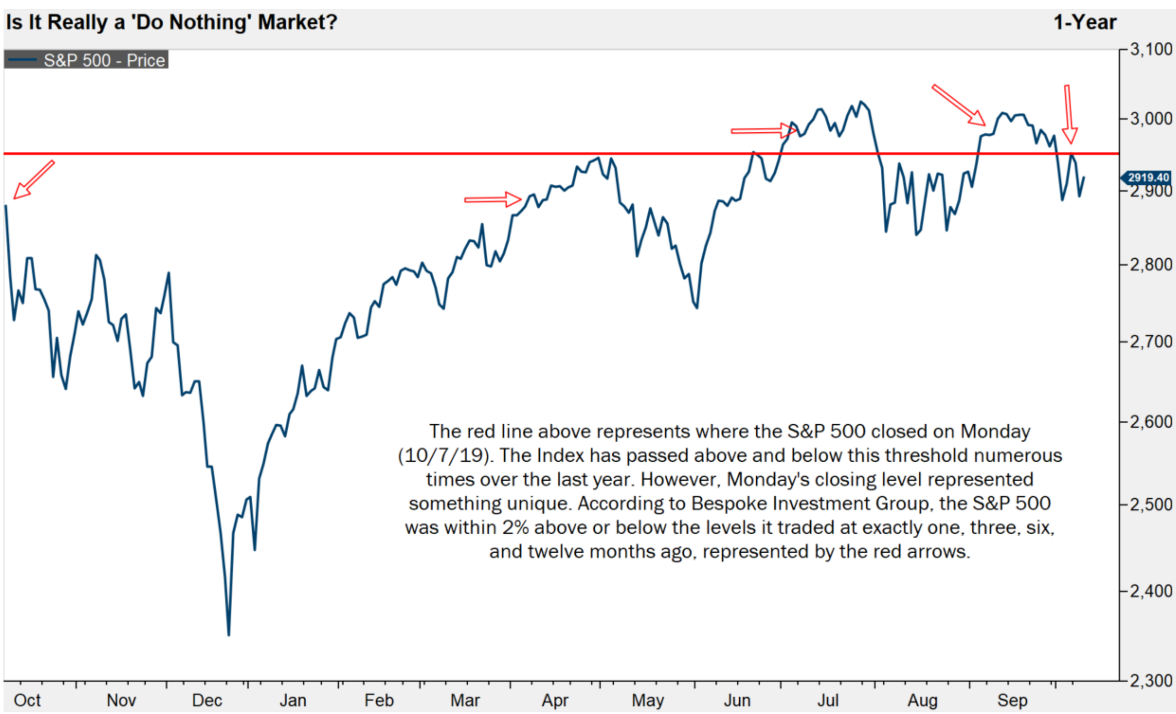
October 11, 2019

FOR IMPORTANT DISCLOSURES, PLEASE SEE THE DISCLOSURE PAGES AT THE END OF THIS DOCUMENT

MORNING MARKET COMMENTARY: *Anthony M. Saglimbene, Global Market Strategist*

- ***Quick Take***: U.S. futures are pointing to a higher open, as expectations for a 'mini' U.S./China trade deal lift sentiment; European markets are also trading higher on positive Brexit headlines; Asia ended in the green overnight; West Texas Intermediate (WTI) oil trading at $54.24 on increased Middle East tensions; 10-year U.S. Treasury yield up to 1.70% with trade optimism depressing bond prices this morning.

- ***Charting The Market:*** Most investors are laser-focused on U.S./China trade talks at the moment, which we discuss below in the U.S. section of our market commentary. However, to close the week, we'll take this morning's headline space to focus on a few market charts catching our eye.



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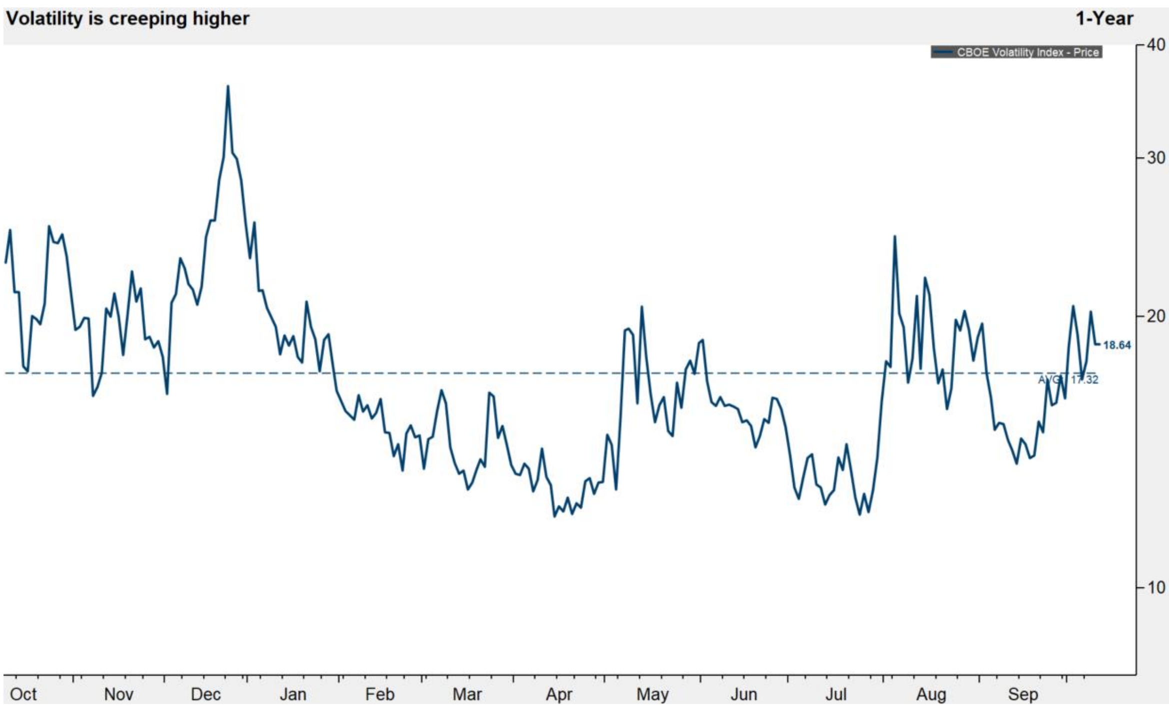
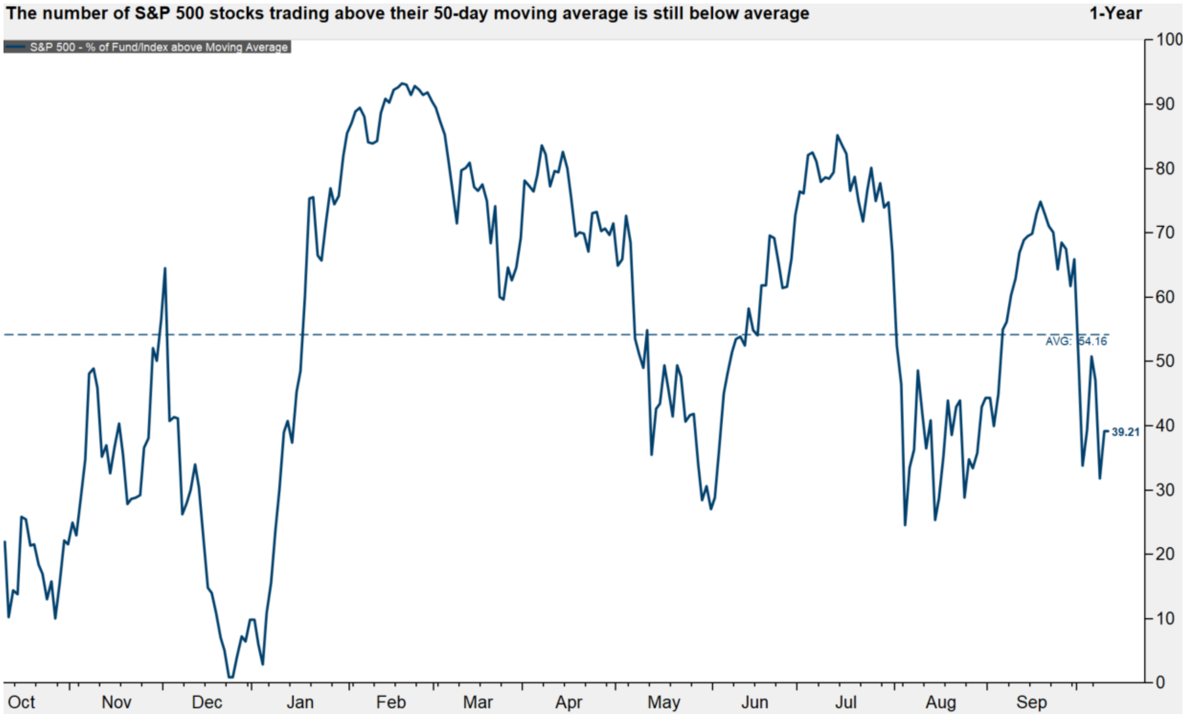
- Unless specifically stated otherwise, comments contained in this document should not be construed as an investment opinion or recommendation of any securities mentioned. Charts depicted are from FactSet unless otherwise noted.

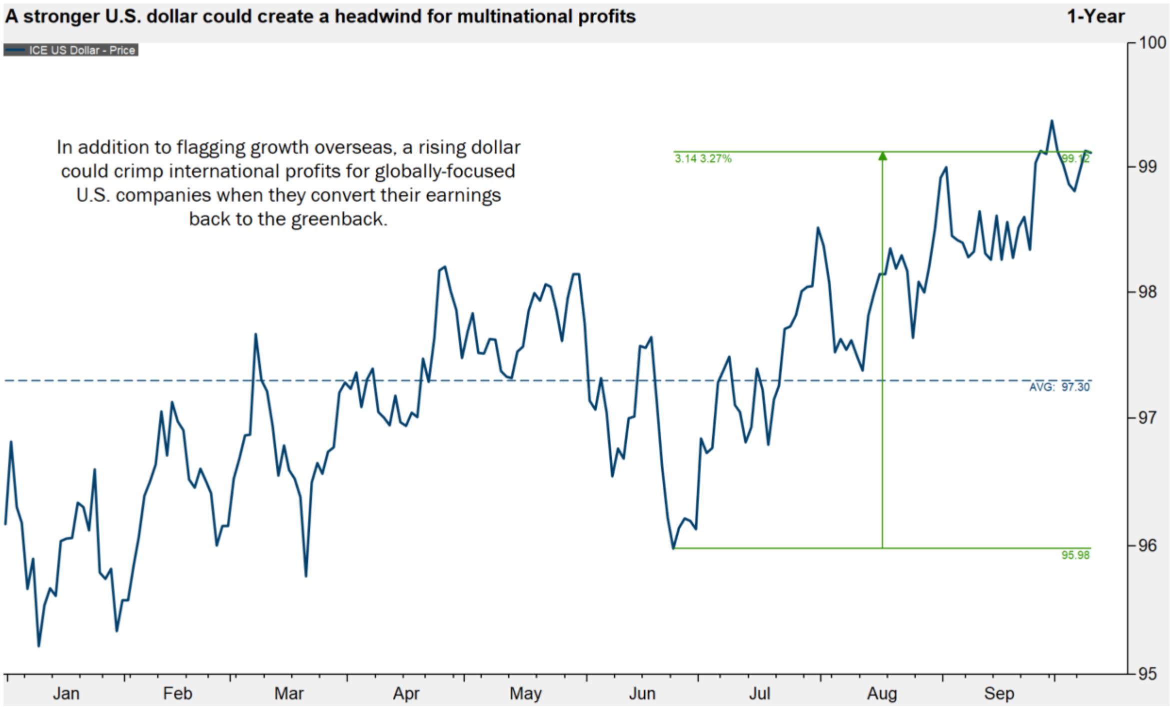
- As readers of these pages are fully aware, we have discussed for quite some time the rather flat performance in U.S. stocks over the last year as well as their significant underperformance versus high-quality bonds. However, the S&P 500 Index did something unique on Monday, which *Bespoke Investment Group* recently highlighted. It's rather uncommon for stock prices to stand still. It's even less common for stocks to tread water in a tight range over multiple trailing periods. **As the *FactSet chart* above shows, the S&P 500 Index closed on Monday within 2% of the same level over a one, three, six, and twelve-month window. Since 1929, there are only 43 other occurrences of this development, representing just 0.2% of all trading days, per *Bespoke* data**. Interestingly, these occurrences are clustered together over eight periods. Although stock performance is generally positive one year out from these flatter periods, historically, equity performance can see more bumps in the road over the short-term when this happens.
- That volatility is already starting to show in the market today. **As the *second FactSet chart* below demonstrates, stock market volatility has steadily increased since August, with the VIX Index currently sitting above its one-year average**. With an eagerly anticipated earnings season kicking off next week, a Fed meeting at the end of the month, and ongoing trade developments, October is showing why it's one of the most volatile months of the year.



- **With stock prices generally flat over the last three months, and volatility a little more elevated than its recent past, it's not surprising a smaller number of S&P 500 stocks are trading above their 50-day moving average, as shown in the *third FactSet chart* below**. Although stock breadth is weaker than it was in the summer, it certainly is not back to last December levels. More concerning is the fact that over the last four to five times the S&P 500 seems to rally back from near-term selling pressure, fewer stocks participate in rallying to or above their 50-day moving average. History suggests this is not necessarily bad for future performance, but it's not exactly great either. When breadth across the S&P 500 is below 50 (in terms of the 50-day moving average), the Index modestly underperforms over the next three months compared to when the majority of S&P 500 stocks are above their 50-day. We'll see if more positive trade headlines can act as a catalyst to change this dynamic.



- Lastly, third quarter earnings season unofficially kicks-off on Tuesday, with 53 S&P 500 companies scheduled to release their report cards next week. The busiest day of earnings season will fall on Thursday, 10/24, with 51 companies slated to release. The week of Halloween will be the busiest of the season, with 162 S&P 500 companies on the earnings calendar. Analysts currently expect S&P 500 earnings per share (EPS) to decline 4.2% y/y, which would mark the third consecutive quarter of negative EPS growth. While revenue growth has slowed over this period too, it has and should remain positive. **For multinationals, we believe U.S. dollar strength could be an issue, as the *last FactSet chart* on page 4 highlights. While currency headwinds are always a case-by-case issue for companies and investors, it's just another issue to keep in mind as companies talk through trade, business conditions, and their year-end outlooks**.



- ***Asia-Pacific:*** Asian equities finished higher on Friday. Outside of trade headlines, news flow in the region was light overnight. In the latest *Reuters Corporate Survey* of Japanese companies, business leaders expect the economy to level off in 2020, with 41% of respondents saying Japan could see a recession next year. Nearly 70% of Japanese businesses believe this month's consumption tax increase will weigh on growth. On monetary policy, 57% of survey respondents believed further monetary stimulus from the Bank of Japan (BOJ) could weaken financial institutions — but that figure is down from 88% in July.

- ***Europe:*** Markets across the region are trading in the green at mid-day. Per *Sky News*, the UK is proposing a pared-down free trade agreement to complete Brexit by October 31st. UK Prime Minister Boris Johnson presented the plan to Irish leader Leo Varadkar on Thursday, with both leaders saying they can see a path forward for a deal. Although a free trade agreement would not solve all issues plaguing a Brexit deal (e.g., does not address customs issues), it could provide a solid foundation for a wider agreement. The UK and European Union (EU) will meet today to determine if talks on the plan should intensify ahead of next week's EU summit. EU council president Donald Tusk said he sees "promising signals" about the chance for a fresh Brexit agreement, according to the *Financial Times*.

- ***U.S.:*** Equity futures are pointing to a stronger open this morning. **Is a skinny trade deal in the works?** Markets and investors alike are cautiously optimistic a mini trade deal is on the way as the U.S. and China discuss trade for a second day. Reports prior to the start of talks on Thursday indicated Beijing officials would end the meeting early following actions from the White House to restrict several Chinese tech firms and place Visa restrictions on some Chinese nationals entering the U.S. However, various reports suggest both sides could announce a 'skinny' deal later today that prevents U.S. tariffs increasing to 30% from 25% on $250 billion in Chinese imports starting on October 15th. President Trump is expected to meet with China Vice Premier Liu He this afternoon. The Vice Premier has met with President Trump in the oval office during his last three of four visits to Washington. Increased agricultural purchases from China, some repackaged commitments from Beijing on the IP front in exchange for a U.S. delay in tariffs is likely the outcome of this week's trade talks, in our view. Based on market activity yesterday and pre-market trading this morning, traders appear comfortable with such an outcome for now.

- Although trade is very likely to be an ongoing issue through the rest of the quarter, a reprieve in tensions could allow stock prices some breathing room, particularly as earnings season gets underway. Net-net, if trade issues can take a backseat role for a period, while fundamental data holds and the Federal Reserve cuts interest rates at the end of the month, stock prices could grind higher in Q4.
- According to the latest *Bank of America Merrill Lynch Flow Show* report, global bond funds received an additional $11.1 billion in the week ending October 9th – marking the 40th consecutive week of inflows. Amid slowing growth, this week's high-level U.S./China trade meeting, as well as growing impeachment headlines investors pulled $9.8 billion from equity funds over the same period. Over the past six months, investors plowed $322 billion into money market funds, the most since the second half of 2008 and during the Lehman Brothers crisis. As we routinely highlight, investor caution is high and given the macro environment. Bullish sentiment is weak and below average, which we believe could set up a contrarian signal for investors if the next few weeks of earnings and economic data come in supportive.
- Lastly, WTI crude prices are up over 1.0% today following reports that an Iranian crude tanker was hit by missiles near Saudi Arabia's port city of Jeddah, according to the *Financial Times*. Although Iran has not yet assigned blame, the incident comes amid heightened tensions in the Middle East and following several other tanker attacks in the region as well as a drone strike on Saudi Arabia's oil infrastructure in September. Outside of today's tanker attack, Iran is widely seen as the perpetrator of the increased violence across the region.

WORLD CAPITAL MARKETS *(all data as of approximately 8:00 AM ET)*

Americas	% chg.	% YTD	Value
S&P 500	0.64%	19.08%	2,938.1
Dow Jones	0.57%	15.74%	26,496.7
NASDAQ	0.60%	20.85%	7,950.8
Russell 2000	0.40%	11.34%	1,485.4
Brazil Bovespa	0.56%	15.85%	101,817.1
S&P/TSX Comp. (Canada)	0.26%	17.46%	16,422.7
Mexico IPC	1.01%	5.36%	42,929.8

Europe (Intra-day)	% chg.	%YTD	Value
DJSTOXX 50 (Europe)	1.51%	22.19%	3,546.8
FTSE 100 (U.K.)	0.73%	11.80%	7,239.0
DAX Index (Germany)	2.09%	17.62%	12,419.0
CAC 40 (France)	1.21%	22.79%	5,636.3
FTSE MIB (Italy)	1.21%	20.17%	22,019.1
IBEX 35 (Spain)	1.24%	11.22%	9,216.9
Russia TI	0.44%	20.69%	4,726.3

Asia/Pacific (Last Night)	% chg.	%YTD	Value
Nikkei 225 (Japan)	1.15%	10.98%	21,798.9
HK Hang Seng (H. Kong)	2.34%	5.31%	26,308.4
Korea Kospi 100	0.81%	0.62%	2,044.6
Singapore STI	0.79%	5.12%	3,114.0
Shanghai Comp. (China)	0.88%	22.13%	2,973.7
Bombay Sensex (India)	0.65%	6.78%	38,127.1
S&P/ASX 200 (Australia)	0.91%	22.41%	6,606.8

Global	% chg.	% YTD	Value
MSCI All-Country World Idx	0.56%	15.32%	514.1

Developed International	% chg.	%YTD	Value
MSCI EAFE	0.49%	11.84%	1,862.4

Emerging International	% chg.	%YTD	Value
MSCI Emerging Mkts	0.35%	5.73%	996.5

Note: International market returns shown on a local currency basis. ***Equity index data is total return, inclusive of dividends.***

S&P 500 Sectors	% chg.	% YTD	Value
Consumer Discretionary	0.53%	20.98%	935.7
Consumer Staples	0.20%	22.48%	625.1
Energy	1.28%	2.36%	422.1
Financials	1.02%	16.64%	453.5
Real Estate	0.18%	29.62%	243.4
Health Care	0.51%	4.53%	1,032.2
Industrials	0.86%	18.94%	635.2
Materials	0.98%	13.28%	352.7
Technology	0.64%	31.22%	1,411.1
Communication Services	0.64%	21.56%	166.5
Utilities	-0.12%	24.27%	325.5

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	0.10%	0.01%	22.3
FTSE NAREIT Comp.	0.09%	28.34%	21,299.3
DJ US Select Dividend	0.79%	15.16%	2,142.5
DJ Global Select Dividend	2.31%	4.95%	217.0
S&P Div. Aristocrats	0.83%	17.89%	2,825.8

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	-0.32%	8.61%	2,222.8
Barclays HY Bond	0.04%	10.97%	2,118.8

Commodities Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	0.28%	-9.20%	436.3
NYMEX WTI Crude (p/bbl.)	1.21%	19.36%	54.2
ICE Brent Crude (p/bbl.)	1.08%	11.04%	59.7
NYMEX Nat Gas (mmBtu)	-0.50%	-24.93%	2.2
Spot Gold (troy oz.)	-0.62%	15.77%	1,484.7
Spot Silver (troy oz.)	-0.30%	12.70%	17.5
LME Copper (per ton)	1.74%	-3.35%	5,749.5
LME Aluminum (per ton)	0.68%	-6.17%	1,747.8
CBOT Corn (cents p/bushel)	0.99%	-3.40%	384.0
CBOT Wheat (cents p/bushel)	0.35%	-8.80%	494.8

Foreign Exchange (Intra-day)	% chg.	% YTD	Value
Euro (€/$)	0.4%	-3.7%	1.10
British Pound (£/$)	1.3%	-1.2%	1.26

	% chg.	% YTD	Value
Japanese Yen ($/¥)	-0.39%	1.19%	108.40
Australian Dollar (A$/$)	0.55%	-3.56%	0.68

	% chg.	% YTD	Value
Canadian Dollar ($/C$)	0.3%	2.9%	1.33
Swiss Franc ($/CHF)	-0.1%	-1.6%	1.00

Data/Price Source: Bloomberg; Equity Index data is total return, inclusive of dividends where applicable.

Ameriprise Global Asset Allocation Committee

U.S. Equity Sector - Tactical View

Sector	S&P 500 Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
1) Communication Services	10.5%	Underweight	- 2.0%	8.5%
2) Consumer Discretionary	10.0%	Overweight	+2.0%	12.0%
3) Consumer Staples	7.4%	Equalweight	-	7.4%
4) Energy	4.6%	Equalweight	-	4.6%
5) Financials	13.1%	Underweight	- 2.0%	11.1%
6) Health Care	13.9%	Equalweight	-	13.9%
7) Industrials	9.3%	Equalweight	-	9.3%
8) Information Technology	21.8%	Overweight	+2.0%	23.8%
9) Materials	2.7%	Equalweight	-	2.7%
10) Real Estate	3.2%	Overweight	+1.0%	4.2%
11) Utilities	3.5%	Underweight	- 1.0%	2.5%

Index weighting represents relative weightings based on the regional market capitalization balance of the MSCI All-Country World Index; may not add due to rounding. The GAAC Tactical Overlay, as well as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC).Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Index weights as of 9/20/19. Numbers may not add due to rounding.

Ameriprise Global Asset Allocation Committee

Global Equity Region - Tactical View

Region	MSCI All-Country World Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
1) United States	55.6%	Overweight	+7.3%	62.9%
2) Canada	3.1%	Equalweight	-	3.1%
3) United Kingdom	4.8%	Underweight	- 2.0%	2.8%
4) Europe ex U.K.	14.5%	Underweight	- 2.0%	12.5%
5) Latin America	1.4%	Equalweight	-	1.4%
6) Asia-Pacific ex Japan	12.0%	Equalweight	-	12.0%
7) Japan	7.3%	Underweight	- 2.0%	5.3%
8) Middle East / Africa	1.3%	Underweight	- 1.3%	-

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BY THE NUMBERS: ECONOMIC ACTUALS AND FORECAST:

Current Projections:

	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Est. 2019	Est. 2020	Quarterly Actual Q1-2019	Actual Q2-2019	Est. Q3-2019	Est. Q4-2019
Real GDP (YOY)	2.5%	2.9%	1.6%	2.4%	2.9%	2.2%	2.1%	3.1%	2.0%	1.8%	2.2%
Unemployment Rate	5.6%	5.0%	4.7%	4.1%	3.9%	3.6%	3.5%	3.8%	3.7%	3.5%	3.6%
CPI (YoY)	1.6%	0.1%	1.3%	2.1%	2.4%	1.8%	2.1%	1.6%	1.8%	1.8%	1.9%
Core PCE (YoY)	1.6%	1.3%	1.7%	1.6%	1.9%	1.8%	1.9%	1.6%	1.5%	1.7%	1.8%

Sources: Historical data via FactSet. Estimates (Est.) via American Enterprise Investment Services, Inc.

YoY = Year-over-year, Unemployment numbers are period ending. GDP: Gross Domestic Product; CPI: Consumer Price Index

PCE: Personal Consumption Expenditures Price Index. Core excludes food and energy

Last Updated: October 7, 2019

ECONOMIC NEWS OUT TODAY:

Economic Releases for Friday, October 11, 2019. All times Eastern. Consensus estimates via Bloomberg.

Time	Period	Release	Consensus Est.	**Actual**	Prior	Revised to
8:30 AM	SEP	Import Price Index (MoM)	0.0%	+0.2%	-0.5%	-0.2%
8:30 AM	SEP	Import Prices (YoY)	-2.1%	-1.6%	-2.0%	-1.8%
10:00 AM	Oct. P	U. of M. Consumer Sentiment	92.0		93.2	

FIXED INCOME NEWS & VIEWS: *Brian M. Erickson, CFA, Fixed Income Research & Strategy*

Please see our Morning Research Notes report for today's fixed income commentary. Fixed Income News & Views will return to this space on Monday.

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As of September 30, 2019

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Investments in a narrowly focused sector may exhibit higher volatility than investments with broader objectives and is subject to market risk and economic risk.

Income Risk: We note that dividends are declared solely at the discretion of the companies' boards of directors. Dividend cuts or eliminations will likely negatively impact underlying company valuations. Published dividend yields are calculated before fees and taxes. Dividends paid by foreign companies to ADR holders may be subject to a withholding tax which could adversely affect the realized dividend yield. In certain circumstances, investors in ADR shares have the option to receive dividends in the form of cash payments, rights shares or ADR shares. Each form of dividend payment will have different tax consequences and therefore generate a different yield. In some instances, ADR holders are eligible to reclaim a portion of the withholding tax.

International investing involves increased risk and volatility due to political and economic instability, currency fluctuations, and differences in financial reporting and accounting standards and oversight. Risks are particularly significant in emerging markets.

Market Risk: Equity markets in general could sustain significant volatility due to several factors. As we have seen recently, both economic and geopolitical issues could have a material impact on this model portfolio and the equity market as a whole.

Quantitative Strategy Risk: Stock selection and portfolio maintenance strategies based on quantitative analytics carry a unique set of risks. Quantitative strategies rely on comprehensive, accurate and thorough historical data. The Ameriprise Investment Research Group utilizes current and historical data provided by third-party data vendors. Material errors in database construction and maintenance could have an adverse effect on quantitative research and the resulting stock selection strategies.

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For additional information on individual ETFs, see available third-party research which provides additional investment highlights. SEC filings may be viewed at sec.gov

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A real estate investment trust or **REIT** is a company that owns and operates income-producing real estate. In addition, some **REITs** participate in the financing of real estate. To qualify as a **REIT**, a company must: I) invest at least 75% of its total assets in real estate assets, II) generate at least 75% of its gross income from real property or interest, and III) pay at least 90% of its taxable income to shareholders in the form of distributions. A company that qualifies as a **REIT** is permitted to deduct the distributions paid to shareholders from its corporate taxes. Consequently, many **REITs** target to payout at least 100% of taxable income, resulting in virtually no corporate taxes.

An investment in a REIT is subject to many of the same risks as a direct investment in real estate including, but not limited to: Illiquidity and valuation complexities, redemption restrictions, distribution and diversification limits, tax consequences, fees, defaults by borrowers or tenants, market saturation, balloon payments, refinancing, bankruptcy, decreases in market rates for rents and other economic, political, or regulatory occurrences affecting the real estate industry.

Ratings are provided by Moody's Investors Services and Standard & Poor's.

Non-Investment grade securities, commonly known as "high-yield" or "junk" bonds, are historically subject to greater risk of default, including the loss of principal and interest, than higher-rated bonds, which may result in greater price volatility than experienced with a higher-rated issue.

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For further information on fixed income securities please refer to FINRA's Smart Bond Investing at FINRA.org, MSRB's Electronic Municipal Market Access at emma.msrb.org, or Investing in Bonds at investinginbonds.com.

DEFINITIONS OF TERMS

Agency – Agency bonds are issued by Government Sponsored Enterprises (GSE), but are NOT direct obligations of the U.S. government. Common GSE's are the Federal Home Loan Mortgage Corp. (Freddie Mac) Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Bank (FHLB).

Beta: A measure of the risk arising from exposure to general market movements as opposed to company-specific factors. Betas in this report, unless otherwise noted, use the S&P 500 as the market benchmark and result from calculations over historic periods. A beta below 1.0, for example, can suggest the equity has tended to move with lower volatility than the broader market or, due to company-specific factors, has had higher volatility but generally low correlations with the overall market.

Corporate Bonds – Are debt instruments issued by a private corporation. Non-Investment grade securities, commonly known as "high-yield" or "junk" bonds, are historically subject to greater risk of default, including the loss of principal and interest, than higher-rated bonds, which may result in greater price volatility than experienced with a higher-rated issue.

Mortgage Backed Securities – Bonds are subject to prepayment risk. Yield and average lives shown consider prepayment assumptions that may not be met. Changes in payments may significantly affect yield and average life. Please contact your financial advisor for information on CMOs and how they react to different market conditions.

Municipal Bonds – Interest income may be subject to state and/or local income taxes and/or the alternative minimum tax (AMT). Municipal securities subject to AMT assume a "nontaxable" status for yield calculations. Certain municipal bond income may be subject to federal income tax and are identified as "taxable". Gains on sales/redemptions of municipal bonds may be taxed as capital gains. If the bonds are insured, the insurance pertains to the timely payment of principal (at maturity) and interest by the insurer of the underlying securities and not to the price of the bond, which will fluctuate prior to maturity. The guarantees are backed by the claims-paying ability of the listed insurance company.

Treasury Securities – There is no guarantee as to the market value of these securities if they are sold prior to maturity or redemption.

Price/Book: A financial ratio used to compare a company's market share price, as of a certain date, to its book value per share. Book value relates to the accounting value of assets and liabilities in a company's balance sheet. It is generally not a direct reflection of future earnings prospects or hard to value intangibles, such as brand, that could help generate those earnings.

Price/Earnings: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters' earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters' EPS.

Price/Sales: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by the company's sales per share over the most recent year.

INDEX DEFINITIONS

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

Definitions of individual indices mentioned in this report are available on our website at ameriprise.com/legal/disclosures in the **Additional Ameriprise research disclosures** section, or through your Ameriprise financial advisor.

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Except for the historical information contained herein, certain matters in this report are forward-looking statements or projections that are dependent upon certain risks and uncertainties, including but not limited to, such factors and considerations as general market volatility, global economic and geopolitical impacts, fiscal and monetary policy, liquidity, the level of interest rates, historical sector performance relationships as they relate to the business and economic cycle, consumer preferences, foreign currency exchange rates, litigation risk, competitive positioning, the ability to successfully integrate acquisitions, the ability to develop and commercialize new products and services, legislative risks, the pricing environment for products and services, and compliance with various local, state, and federal health care laws. See latest third-party research reports and updates for risks pertaining to a particular security.

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