Before the Bell

Morning Market Brief

October 14, 2019

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MONDAY MORNING MARKET STRATEGY: *David M. Joy, Chief Market Strategist*

Equities rose for the first time in four weeks on rising optimism that the U.S. and China are making constructive progress in their restarted trade negotiations. As we learned on Friday, the scope of what was agreed to was quite limited, as expected, but it is a start. China apparently agreed to buy more U.S. agricultural products and the U.S. agreed to suspend the tariff increase scheduled to take effect this week. But China wants to discuss further the so-called phase one agreement before the end of the month to hammer out the details before it can be finalized.

What the phase one deal doesn't do is roll back any tariffs that are already in place. The drag they exert on economic growth remains ongoing. And while any rollback was certainly too much to ask at this early stage of the negotiation process, hopefully we get there at some point.

Nevertheless, equity investors liked enough of what they heard to take stocks sharply higher on Friday, driving the S&P 500 to a gain of 0.6 percent on the week. But it remains to be seen for how long Friday's agreement is enough to keep stocks rising. Investors will soon enough want to see some real progress on the issues that are retarding global growth, namely tariffs and supply chain certainty.

The good news got even better last week after British Prime Minister Johnson and Irish Taoiseach Varadkar said they could see a "pathway" to a Brexit deal between the UK and EU. The two agreed to a possible solution to question of how to treat the Irish border with Northern Ireland. There is a long way to go to turn this breakthrough into a deal, but not a lot of time. Johnson must strike his deal at this week's EU Summit, and then quickly convince parliament. October 31st is the deadline for the UK to leave, with or without a deal. Events are moving quickly, and as the Prime Minister said on Friday, there is a significant amount of work to be done. EU leaders have expressed their skepticism, as have members of the Prime Minister's governing coalition. If needed, another EU summit could be scheduled for later in the month, and the deadline could also be extended for a third time. But as with the U.S.-China negotiation, hopes springs eternal, and European equity prices soared to end the week. The EuroStoxx 600 index climbed 3.0 for the week. The German DAX index surged higher by 4.2 percent on the week, while the UK FTSE 100 lagged behind, held back by a sharp rise in the pound.

Bond yields also soared last week. The ten-year U.S. Treasury note climbed 20 basis points to 1.73 percent, although it remains well below the 2.50 percent yield that prevailed when trade talks broke down in May. High yield credit spreads narrowed, but the tightening in investment grade was more muted. The ten-year German bund yield rose 14 basis points to -0.45 percent.

While trade developments will remain front of mind for investors this week, they will be joined by the start of third quarter earnings season. Expectations are quite modest. The big banks kick things in a challenging environment for net interest margins, loan growth, and investment banking activity. Tuesday is a big day with Citigroup, JPMorgan, Wells Fargo, and Goldman Sachs all scheduled to report, with Bank of America and Morgan Stanley following later in the

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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.

week. On the economic calendar, Wednesday's retail sales report will be closely watched to see if the consumer sector continues to be the workhorse of the U.S. economy. Last Friday, the University of Michigan's consumer sentiment survey rebounded for the second straight month following a sharp decline in August. Also on this week's calendar are housing starts, industrial production, and leading indicators.

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

- ***Quick Take***: U.S. futures are pointing to a lower open; European markets are also trading down; Asia ended in the green overnight; West Texas Intermediate (WTI) oil trading down at $53.48 on news Saudi Arabia has now boosted oil production back to levels before the September drone strikes; 10-year U.S. Treasury yield up to 1.73%.

- ***Asia-Pacific:*** Equities in Asia finished higher on Monday. China trade data came in mostly weaker than expected overnight. Exports and imports in September slipped versus August levels and were also weaker than consensus estimates. Per *FactSet*, successive sharp cuts in U.S. exports led to the first contraction in the bilateral surplus since February. U.S. imports into China also declined for the 11th consecutive month. Based on the timing of tariffs this year, China import/export data has seen more volatility due to front-loading activities. The trade war and softening global growth overall were largely cited for the weaker September trade data.
- On Saturday, Typhoon Hagibis made landfall south of Tokyo, hitting Japan's central and northern regions. According to *FactSet*, Hagibis has left 100K homes without power, several people missing and injured, and 40 people dead. While the economic impact on the region from the typhoon is still unknown, reports suggest the majority of residents could have power restored by Wednesday.

- ***Europe:*** Markets across the region are trading in the red at mid-day. Brexit headlines continue to ebb and flow. Over the weekend, UK Prime Minister Boris Johnson told his cabinet that a deal could be achieved. At the same time, the European Union (EU) warned Mr. Johnson's plan is not good enough for an agreement. The main sticking point in Mr. Johnson's plan continues to revolve around the Irish border. The EU still has serious concerns regarding the customs union and untested UK ideas for managing goods that may risk the integrity of the single market, according to *FactSet*. The EU and UK will further discuss Mr. Johnson's plan at this week's EU summit.

- ***U.S.:*** Equity futures are pointing to a weaker open this morning. On Friday, Washington and Beijing agreed to a "Phase 1" trade pact, which sent U.S. equity prices soaring higher shortly after the announcement. The details of the agreement are light, however, and do not address the structural reforms some investors were hoping would accompany the trade pact. The nuts and bolts include increased agricultural purchases from Beijing as well as unspecified commitments to address IP and currency concerns in exchange for a delay in the scheduled October 15th U.S. tariffs on Chinese imports.
- Although the 'skinny deal' falls in line with what we expected and could ease trade tensions through the rest of the quarter, we believe the market is left with the same uncertainties it had coming into last week's closely watched trade meeting. Washington and Beijing appear no closer to an agreement on the points that matter most (i.e., protecting IP and structural issues in China), and there are no guarantees trade tensions won't unexpectedly escalate from here. As it stands today, the December 15th tariffs remain on the table, but we suspect they may be suspended if progress in talks continues. While U.S. trade officials said last week's meeting found some common ground with China on IP, currency transparency, technology transfers, and financial services, Beijing press reports largely focused on additional agricultural purchases – which the country needs anyway to sustain its food supply.
- Since the market has had more time to digest last week's trade news, investors appear more suspect of any forthcoming breakthroughs in negotiations, as the Phase 1 plan largely kicked the can down the road. However, while business confidence on trade is likely to remain unchanged and stuck in a holding pattern, investors' sentiment could rise over the near-term if the trade pact is signed and tariffs do not increase

through year-end. According to *Bloomberg*, both China and the U.S. would like a signed Phase 1 deal as soon as possible, with both presidents signing a final agreement as early as the APEC summit in Chile next month.

- Earnings season unofficially gets underway on Tuesday, with 53 S&P 500 companies scheduled to report their third quarter results. Analysts expect S&P 500 Q3 earnings per share (EPS) to decline by 4.6% y/y on revenue growth of +2.7%. Generally, companies tend to outperform analyst profit expectations as the reporting season moves on. In our view, this could leave final Q3'19 S&P 500 EPS growth down materially less than forecasts and closer to the flat line — similar to Q1 and Q2 results. We believe equity prices could hold near current levels or grind a little higher if this scenario plays out to script.

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

Americas	% chg.	% YTD	Value
S&P 500	1.09%	20.38%	2,970.3
Dow Jones	1.21%	17.14%	26,816.6
NASDAQ	1.34%	22.47%	8,057.0
Russell 2000	1.79%	13.33%	1,511.9
Brazil Bovespa	1.98%	18.14%	103,831.9
S&P/TSX Comp. (Canada)	-0.05%	17.41%	16,415.2
Mexico IPC	0.66%	6.06%	43,214.6

Europe (Intra-day)	% chg.	%YTD	Value
DJSTOXX 50 (Europe)	-0.73%	22.09%	3,543.8
FTSE 100 (U.K.)	-0.53%	11.33%	7,208.5
DAX Index (Germany)	-0.63%	17.75%	12,432.7
CAC 40 (France)	-0.74%	22.52%	5,623.5
FTSE MIB (Italy)	-0.51%	20.34%	22,051.7
IBEX 35 (Spain)	-0.72%	11.10%	9,206.6
Russia TI	-0.28%	20.26%	4,709.4

Asia/Pacific (Last Night)	% chg.	%YTD	Value
Nikkei 225 (Japan)	Closed	10.98%	21,798.9
HK Hang Seng (H. Kong)	0.81%	6.16%	26,521.9
Korea Kospi 100	1.11%	1.74%	2,067.4
Singapore STI	0.34%	5.47%	3,124.5
Shanghai Comp. (China)	1.15%	23.54%	3,007.9
Bombay Sensex (India)	0.23%	7.02%	38,214.5
S&P/ASX 200 (Australia)	0.54%	23.07%	6,642.6

Global	% chg.	% YTD	Value
MSCI All-Country World Idx	1.37%	16.90%	521.1

Developed International	% chg.	%YTD	Value
MSCI EAFE	1.84%	13.90%	1,896.7

Emerging International	% chg.	%YTD	Value
MSCI Emerging Mkts	1.51%	7.33%	1,011.5

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	1.15%	22.37%	946.5
Consumer Staples	-0.10%	22.36%	624.5
Energy	1.41%	3.79%	428.0
Financials	1.28%	18.14%	459.3
Real Estate	-0.29%	29.26%	242.7
Health Care	0.80%	5.44%	1,040.5
Industrials	1.97%	21.28%	647.8
Materials	1.91%	15.46%	359.5
Technology	1.49%	33.18%	1,432.1
Communication Services	1.04%	22.82%	168.3
Utilities	-0.34%	23.84%	324.4

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	0.28%	0.29%	22.3
FTSE NAREIT Comp.	-0.09%	28.23%	21,280.8
DJ US Select Dividend	1.11%	16.44%	2,166.3
DJ Global Select Dividend	-0.54%	5.14%	217.4
S&P Div. Aristocrats	1.35%	19.48%	2,863.9

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	-0.35%	8.23%	2,215.0
Barclays HY Bond	0.22%	11.21%	2,123.5

Commodities Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	0.51%	-8.73%	438.5
NYMEX WTI Crude (p/bbl.)	-2.14%	17.88%	53.5
ICE Brent Crude (p/bbl.)	-2.05%	10.17%	59.3
NYMEX Nat Gas (mmBtu)	3.30%	-22.21%	2.3
Spot Gold (troy oz.)	0.33%	16.49%	1,493.9
Spot Silver (troy oz.)	0.25%	13.49%	17.6
LME Copper (per ton)	0.24%	-3.12%	5,763.5
LME Aluminum (per ton)	-1.72%	-7.78%	1,717.8
CBOT Corn (cents p/bushel)	-0.69%	-0.63%	395.0
CBOT Wheat (cents p/bushel)	0.25%	-6.13%	509.3

Foreign Exchange (Intra-day)	% chg.	% YTD	Value
Euro (€/$)	-0.1%	-3.8%	1.10
British Pound (£/$)	-1.0%	-1.7%	1.25
Japanese Yen ($/¥)	0.06%	1.35%	108.23
Australian Dollar (A$/$)	-0.57%	-4.17%	0.68
Canadian Dollar ($/C$)	-0.1%	3.2%	1.32
Swiss Franc ($/CHF)	0.2%	-1.3%	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%	-

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.

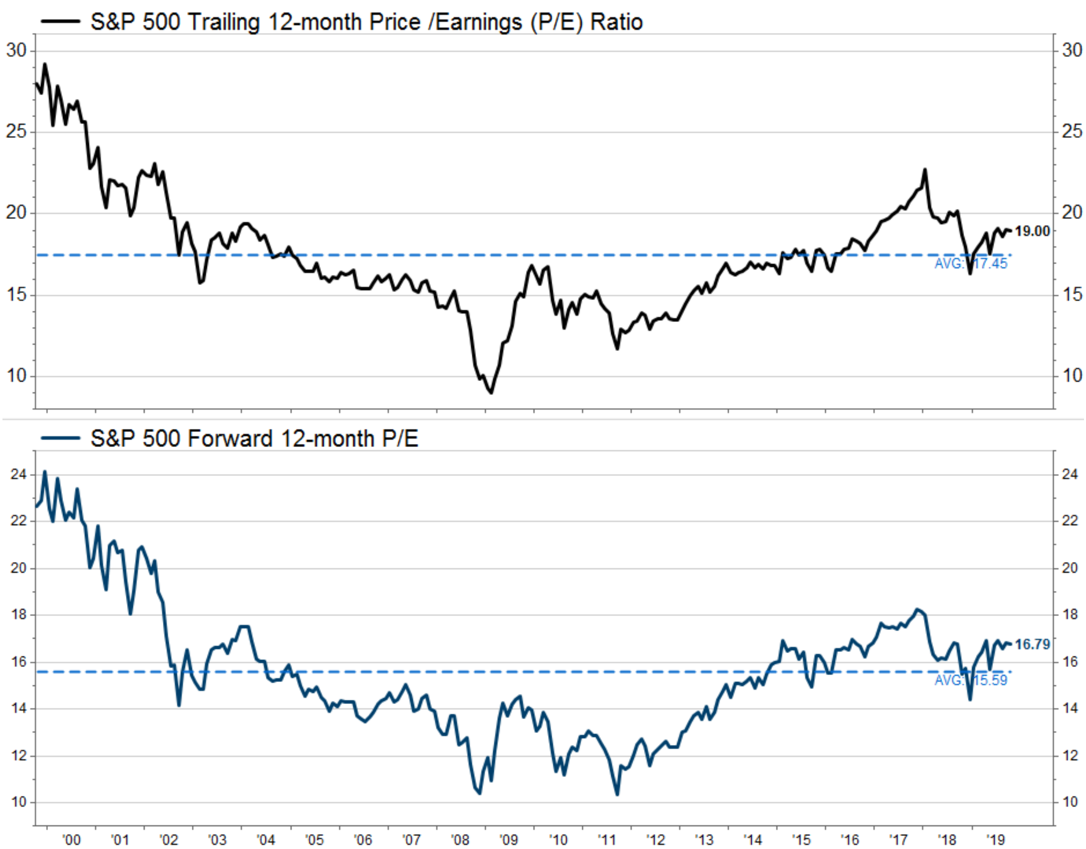
THE WEEK AHEAD: *Russell T. Price, CFA, Chief Economist*

- **Corporate earnings take center stage.** This week, 52 companies, or about 10% of the S&P 500 Index is scheduled to report their third quarter results, including 7 constituents of the Dow Jones Industrial Average. Through last Friday, just 24 S&P 500 companies had reported. Earnings per share (EPS) for S&P 500 companies are expected to be down 4.9% year-over-year for Q3 on sales growth of 3.3%. (All numbers cited are sourced from FactSet.)
- A number of issues have been weighing on corporate performance for several months and will likely continue to do so over the near-term. The U.S. /China trade dispute is a well-known factor that is having a negative impact on many companies, but the technology sector in particular. Companies in the Energy and Material sectors, meanwhile, are expected to see notable declines on both the top and bottom-line due to lower commodity prices. The strong U.S. dollar (up about 4% Q3-19 versus Q3-18) and weaker growth in key foreign markets is also expected to weigh notably on multinationals. Results in the Financial sector are also expected to be under pressure from very tight net interest margins, a result of today's very low interest rate environment.
- There are other factors to consider of course, but we believe it's important to see that some of these issues are also likely to be temporary in nature. Even the ongoing production problems at Boeing are an issue that should be considered. Boeing itself is expected to be a drag on overall S&P 500 EPS results by over 0.2 percentage points, according to FactSet, in addition to the negative impact on suppliers and the airline industry.
- **The economic calendar is slow this week.** However, there are a few reports that could garner attention. In particular, the regional manufacturing surveys from the New York and Philadelphia Federal Reserve Banks will likely be under closer scrutiny given the poor performance of the ISM Manufacturing Index two weeks ago. As we noted at the time, the UAW labor strike at General Motors was likely an influence on the ISM measure, but it was not seen in the New York and Philly Fed surveys as they were conducted and published before the strike started on September 16th. This month, the surveys are likely to reflect some negative influence from the GM strike, thus it could weigh on the results of both reports. The key question will be how much consideration traders give to this likely influence. Of course, the recent good news on the U.S. /China trade front may be enough for them to overlook such problems.
- On Wednesday, Retail Sales for the month of September are out. Forecasters as surveyed by Bloomberg look for another fairly solid month for consumer activity. Sales for the month are expected to see an increase of about 0.3%, or about 4.5% to 5.0% versus year-ago levels. Some downward pressure is expected from a larger than normal drop in gasoline prices, while new auto sales, at a reported 17.2 million on a seasonally-adjusted, annualized basis (versus 17.1 million in August), should be supportive.
- On Thursday, September New Housing Starts are expected to drop by about 6% after a surge of over 12% in August. We believe the August surge, however, was largely a "catch-up" for the industry after a very wet and stormy second quarter appeared to delay some projects. The August results were also heavily fueled by a very sharp jump in multifamily construction of 33%. The category can be very lumpy from month-to-month as the start of a large apartment complex or building can make a difference. So far this year, new home building is right in-line with its pace from last year (which was a post-recession high) at a rate of about 1.25 million units. We still expect some improvement in the pace of new construction in Q4, weather permitting.
- Industrial Production for the month of September is also out on Thursday. The Index should see some pressure from lower manufacturing output, particularly in the autos sector due to the GM strike. The auto sector accounts for approximately 4%-5% of the total Index. On the positive side, September was hotter than normal which should be reflected in increased demand for Utility output in the month. Overall, we expect the Index to be down about 0.1% while the consensus via Bloomberg currently looks for a 0.1% gain.

October 14	15	16	17	18
Trade - China	**Empire Mfg. Index**	**Retail Sales**	**Initial Jobless Claims**	**Leading Econ. Indicators**
Inflation - China	*Inflation - France*	**Business Inventories**	**Housing Starts**	
Industrial Production - Euro Zone	*Unemployment - U.K.*	**NAHB Housing Index**	**Building Permits**	
Inflation - India	*Auto Sales - Canada*	*Inflation - Euro Zone*	**Industrial Production**	
		Trade - Euro Zone	**Capacity Utilization**	
		Inflation - U.K.	**Philly Fed Business Index**	
			Retail Sales - U.K.	
			GDP - China	
			Industrial Production - China	
			Retail Sales - China	
			Fixed Investment - China	
			Manufacturing Activity - Canada	
			Employment - Canada	

Where Market Fundamentals Stand Heading into The Week:

S&P 500 Trailing and Forward P/E valuations: *Source: FactSet*
Please note: Although we try to maintain consistency as much as possible, Price to Earnings (P/E) ratios may differ modestly from once source to another. Most notably, P/E numbers can often show their most notable differences during an earnings release season as some sources may still use the last full 'actual' earnings number (for instance, currently Q4 trailing 12-month earnings per share) while others use earnings per share that are updated for Q1 using a combination of actual and estimated earnings per share. The calculation of earnings (operating earnings versus 'as reported' or GAAP) also often differs modestly from one data source to another due to the proprietary use of calculation methodologies. The "average" shown in the charts below represent averages for the period shown.



Consensus Earnings Estimates: *Source: FactSet*

S&P 500 Earnings Estimates	2014	2015	2016	2017				2018				2019				2020
10/14/2019	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Est.	Est.	Est.
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Quarterly $$ amount				$30.87	$32.80	$33.54	$36.29	$38.71	$41.13	$42.87	$41.32	$38.80	$41.47	$40.91	$42.43	
change over last week														-$0.17	-$0.14	-$0.01
yr/yr				13.9%	10.7%	6.7%	15.9%	25.4%	25.4%	27.8%	13.9%	0.2%	0.8%	-4.6%	2.7%	
qtr/qtr				-1%	6%	2%	8%	7%	6%	4%	-4%	-6%	7%	-1%	4%	
Trailing 4 quarters $$	$119.02	$118.67	$119.64	$123.25	$126.42	$128.53	$133.50	$141.34	$149.67	$159.00	$164.03	$164.12	$164.46	$162.50	$163.61	$180.97
yr/yr	6.8%	-0.3%	0.8%				11.6%				22.9%				-0.3%	10.6%
Implied P/E based on a S&P 500 level of: **2970**												18.1	18.1	18.3	18.2	16.4

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 Monday, October 14, 2019. All times Eastern. Consensus estimates via Bloomberg.

None scheduled

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

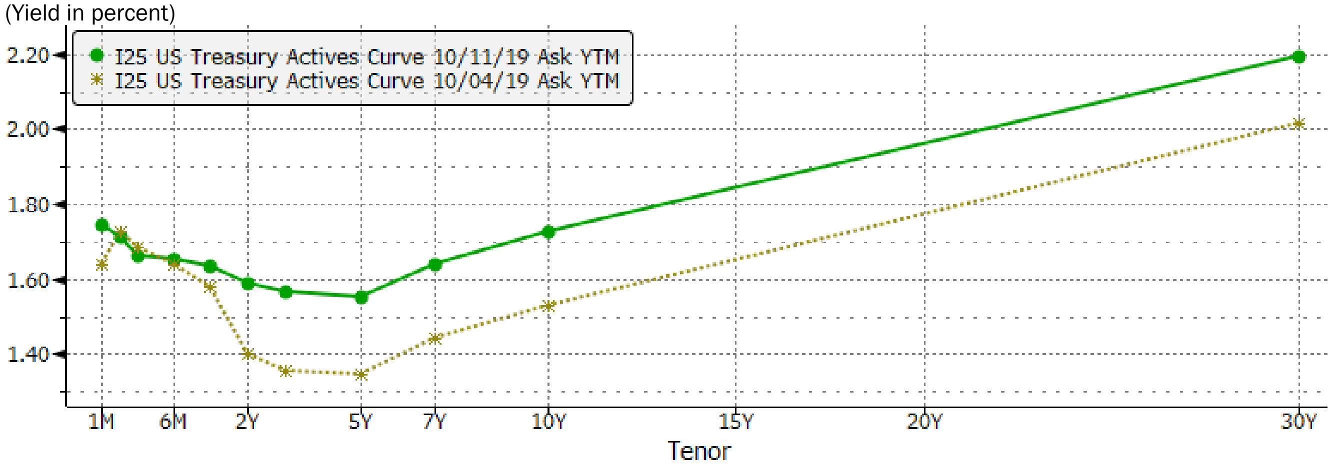
Treasury Yields Rise Out the Curve in a Constructive Flattening

- Ten-year Treasury yields rose 20 basis points week-over-week as positive sentiment around U.S./China trade discussions and a potential Brexit solution drove bond investor back toward risk assets and away from high-quality sovereign debt. The Treasury curve flattened as yields rose 2-years and beyond as prices fell. See chart below. Curve flattening reflects a more constructive tone for Treasury markets, relative to the heavy slump in the belly of the curve seen last week. Though resolution to potential risk of additional tariffs and an uncontrolled Brexit are positives for markets, softening manufacturing activity persists. This morning a Bloomberg News survey of 53 economists lowered third quarter German growth to -0.1% suggesting its economy may enter a recession this quarter.
- This morning, the 10-year U.K. sovereign debt yields declined 8 basis points to 0.62% after the European Union's chief Brexit negotiator characterized the U.K.'s Brexit proposals as lacking detail. Further, China indicated further talks were required before a deal announced last week by President Trump termed 'phase one' before Xi Jinping would sign. Beyond the U.K., European 10-year sovereign debt yields are two to three basis points lower as headlines take the edge off of performance last week.
- **U.S. bond markets are closed today for the Columbus Day Holiday and will reopen tomorrow morning.**
- Fed Ahead: The next Fed policy meeting is scheduled for October 29-30. Given the weaker than expected ISM Manufacturing print, we believe the Fed may cut the fed funds target rate by a quarter point to 1.50% to 1.75%; if not in October, then in the final policy meeting on December 10-11. A string of Fed speakers are scheduled to

speak today including: St. Louis Fed President Bullard, Atlanta Fed President Bostic, Kansas City Fed President George and San Francisco Fed President Daly.

U.S. Treasury Yield Curves – Friday's Close and the Week Prior

(Yield in percent)



Source: Bloomberg L.P.

Fed Announces Excess Bank Reserve Adjustment; Extends Repo Operations Through January

- The Federal Open Market Committee, the Fed's policy making committee that is scheduled to formally meeting next on October 29-30, voted on October 11 to implement a permanent adjustment in excess reserves through at least February and to extend temporary operations to the end of January to enhance liquidity at year-end. The Fed pointed back to its Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization that is updated annually in January in announcing a resumption of T-bill purchases aimed at expanding liquidity in short-term bank to bank lending markets.
- The scale of purchases was not specifically noted, just the goal to maintain excess reserves at or above the level at the end of September and that operations would continue through at least February. Further, the Fed noted principal payments up to $20 billion per month on agency debt and mortgage backed securities held by the Fed would also add liquidity.
- The policy language can be a bit more general than the details around explicit temporary repo operations and indicated that the Fed's capacity to provide overnight or short-term repo lending would be limited only by the amount of securities on its balance sheet. Operations would be made at 1.70% to anchor short-term rates within the Fed's target range.
- We noted in past commentary that a more permanent solution to the tight repo market would be necessary and the Fed chose to paint the move as an operational adjustment, rather than a shift in policy at its scheduled meeting later this month. The Federal Open Market Committee, the Fed's policy making committee that is scheduled to formally meeting next on October 29-30, voted on October 11 to implement a permanent adjustment in excess reserves and to extend temporary operations to the end of January to enhance liquidity at year-end. Purchases of T-bills likely increases prices of Treasuries inside a year and modestly reduces yields in our view. Since the end of October 1-month T-bill yields fell from 1.85% to 1.74% primarily due to the potentially, due to a potential Fed rate cut at the end of the month also due to renewed Fed purchases.
- At a high level, we believe the Fed's announcement could resolve how tight market liquidity has become with a permanent, long-term solution. In the meantime, we see Fed actions as firmly supportive in a way to avoid even a temporary pinch at year-end like we saw at the end of 2018.

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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.

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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.

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