Before the Bell

Morning Market Brief

October 12, 2018

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 bounce higher for stock prices after two days of extreme selling pressure; Europe is trading in the green; Asia finished mostly higher overnight; West Texas Intermediate (WTI) oil at $71.89; 10-year U.S. Treasury yield at 3.16%.

- ***Stocks Set to Bounce – TGIF!*** Over the last two days, we have covered a lot of market ground. **Please see Wednesday's *After The Close* for our take on the current fundamental picture and the 'big rock' market issues we believe could drive market direction going forward. Also, check out Thursday's edition of *Before The Bell* and *After The Close* for more detail on the 'State of the Market.'** As we highlighted yesterday, more than half the companies in the S&P 500 Index are oversold (i.e., trading at least two standard deviations below their 50-day moving average), according to *Bespoke Investment Group*. By yesterday afternoon, the S&P 500 Index had ticked to 3.8 standard deviations below its 50-day moving average, with five of eleven sectors in similar territory. Market conditions at the heart of yesterday's sell-off were the most oversold since August 2015.
- Nevertheless, oversold conditions are generally a poor predictor of where stock prices head next. **Over the last ten years, a two-standard-deviation or more move in stock prices is inconclusive in finding where stocks head after hitting that threshold**. In the last two occurrences (not including this week's activity) where stock prices hit that threshold on the downside, the S&P 500 was lower over the next day, week, month, and three-month periods, according to *Bespoke*. We watch technical factors and important support thresholds in stocks only to find where traders may take prices in the absence of other fundamental drivers. The technical picture is currently weak and until support builds 'wherever stocks find their footing' investors should expect higher levels of volatility over the near-term.
- Yet, fundamental conditions are very strong in the U.S. and not much about the last week of trading changes our view on this key point. This is the primary reason we believe investors should stay the course for now. The S&P 500 also traded through its 200-day moving average yesterday, which has been an important level for traders to watch this year. This morning, stocks appear set to bounce off that 200-day moving average, which they have a few times over the course of 2018.
- **Stocks are set to post their worst week since March. However, after a rough couple of days, Asia traded mostly higher overnight, Europe is positive, and U.S. markets are looking at a higher open to start Friday trading.** Heading into the weekend, investors could use a little more green on their screens. Over the last week, the S&P 500 Index has shed nearly 6.0% on a total return basis, led lower by Information Technology (down 7.9%) and Materials (down 7.7%). Although we call out Tech and Materials specifically, ten of eleven S&P 500 sectors are lower over the last five trading days. Only Utilities have a small gain of 22 basis points.
- **Importantly, earnings season starts today, and as we have said all week, what companies say about trade, interest rates, and inflation on their conference calls will be the real drivers to stock prices over the coming weeks**. Energy, Financials, and Materials are expected to have the largest earnings per share (EPS) growth for the third quarter, as the *embedded FactSet charts* on the next page show. Revenue growth is also expected to be solid in the third quarter. Three of eleven S&P 500 sectors are expected to see double-digit y/y revenue growth, with all eleven sectors seen posting positive y/y growth trends.

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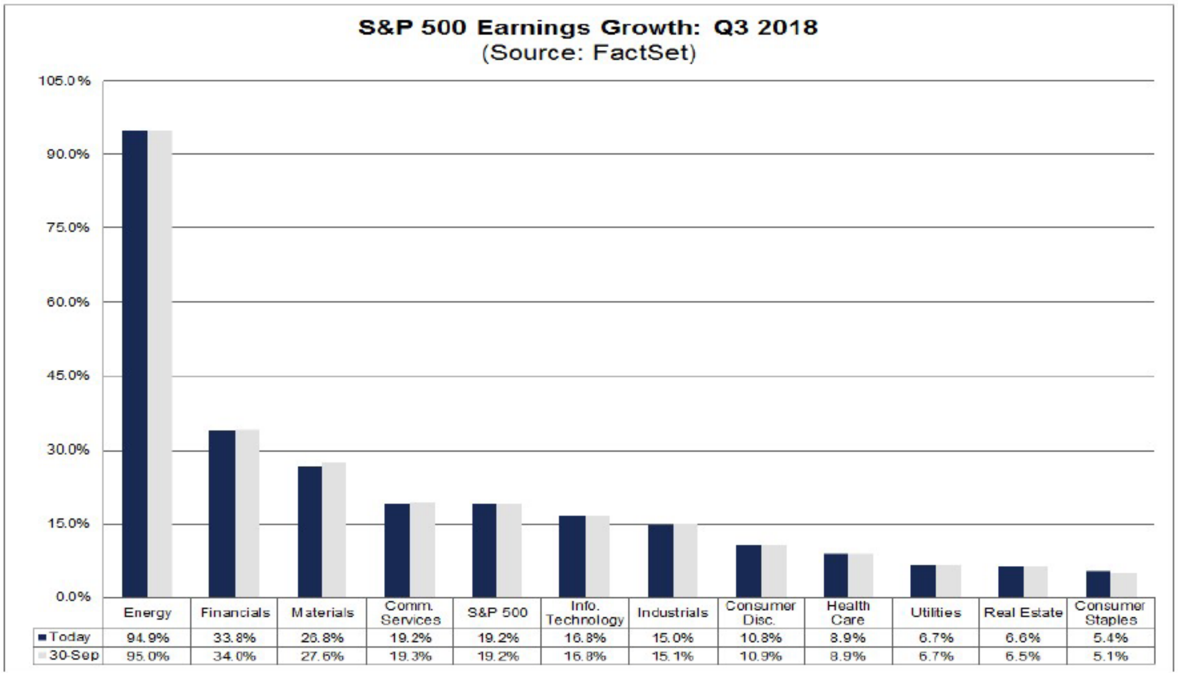

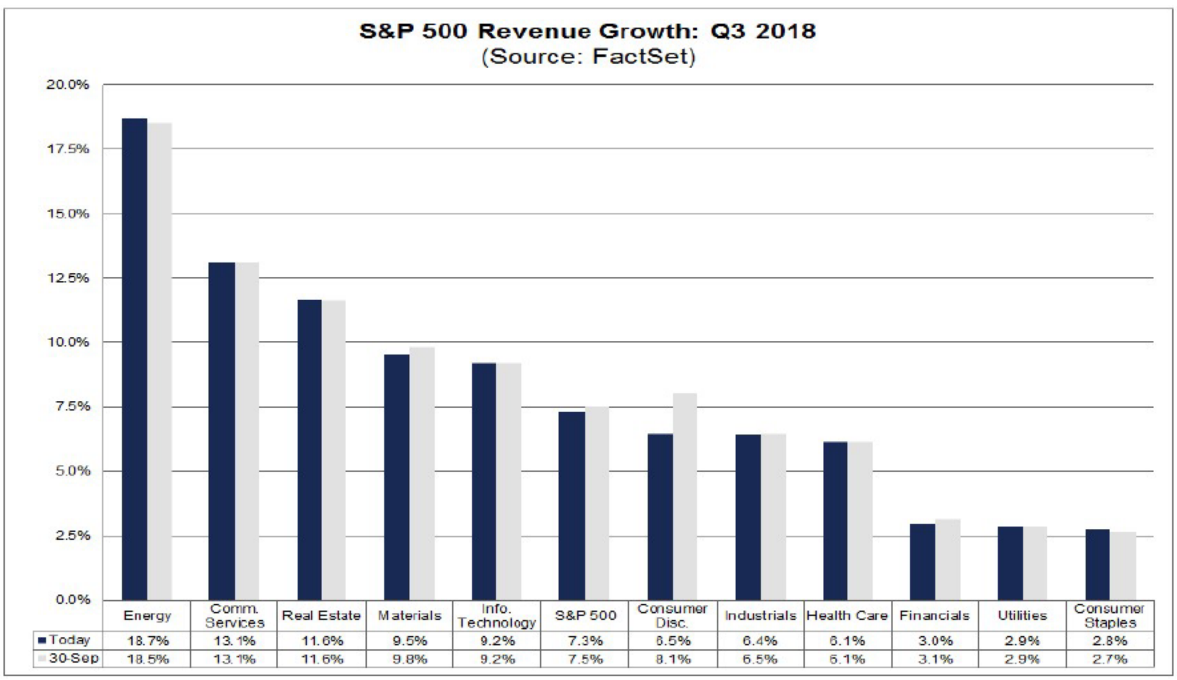

- Although earnings season is just starting, the market may already be pricing in some disappointment. **Next week, 126 companies in the S&P 1500 Index (which includes large, mid and small companies) will report their earnings results. In the two weeks that follow, more than 900 companies in the S&P 1500 are scheduled to report their results—basically 60% of the entire Index in two weeks**. Per *Bespoke*, 48 companies in the S&P 1500 have already reported their results since the middle of September. Of those 48 companies, only 10 traded higher on their earnings day, with the average stock dropping 3.8% in price.
- Nevertheless, analysts have been more negative coming into earnings season than they have over the last few quarters. In our view, this suggests some potential upside for the market as earnings season kicks into full swing and 'if' companies in aggregate can manage analyst expectations. We believe this reporting season carries heightened importance for the market. Investors, more than usual, will pay closer attention to what management has to say about their business outlooks.

- *Asia-Pacific:* Equities finished mostly in the green on Friday. China export growth accelerated to +14.5% y/y in September, according to *FactSet*. This is well above the +9.1% seen in August and beats the +8.2% growth the market expected in September. Export growth from China accelerated into most developed markets, with Europe and Japan seeing a rebound form softness in August. If investors were anticipating that export growth would slow to the U.S., they might have to wait a little longer to see that trend. Export growth from China into the U.S. accelerated last month to +14.0% from +13.2% in August. We believe there is some frontloading activity now taking place into the U.S. and ahead of higher planned tariff rates in January. As a result, we believe export growth from China into the U.S. could remain elevated through the rest of this year.

- *Europe:* Markets across the region are trading higher at mid-day. Several reports suggest that a Brexit breakthrough between the UK and European Union (EU) is close. However, Conservative MPs and Northern Ireland's (DUP) party could try to block the agreement in parliament. UK Prime Minister Theresa May has suggested the idea of remaining in a 'temporary' customs union with the EU with no formal end date. Some reports indicate that if May agrees to such a plan with the EU, several of her cabinet members could quit before Wednesday's summit.

- *U.S.:* Equity futures are pointing to a strong open. U.S. banks kick-off earnings season today, with most analysts expecting in line or better reports from key heavyweights in the Financials sector. Net interest margins and the prospects for loan demand should be the critical components investors focus on in today's bank reports. On Wednesday, it was announced that President Trump and China President Xi Jinping are planning to meet next month at the G20 summit to discuss trade. However, expectations are low for any breakthroughs, as neither side appears ready to give ground in the trade dispute. Lastly, the market is now only fully pricing in two interest rate increases for next year, with an 80% chance of a third, according to *Bloomberg*. As recently as Tuesday, the market was fully discounting three rate hikes in 2019. In our view, the Federal Reserve is unlikely to be bothered by rate rhetoric out of the White House and temporary market declines.

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

Americas	% chg.	% YTD	Value
S&P 500	-2.06%	3.59%	2,728.4
Dow Jones	-2.13%	3.11%	25,052.8
NASDAQ	-1.25%	7.05%	7,329.1
Russell 2000	-1.91%	1.61%	1,545.4
Brazil Bovespa	-0.91%	8.53%	82,921.1
S&P/TSX Comp. (Canada)	-1.29%	-3.29%	15,317.1
Mexico IPC	-1.20%	-2.14%	47,558.2

Europe (Intra-day)	% chg.	%YTD	Value
DJSTOXX 50 (Europe)	0.54%	-4.98%	3,226.6
FTSE 100 (U.K.)	0.77%	-4.92%	7,060.8
DAX Index (Germany)	0.79%	-9.97%	11,630.2
CAC 40 (France)	0.82%	-0.35%	5,148.4
FTSE MIB (Italy)	0.74%	-10.77%	19,499.0
IBEX 35 (Spain)	-0.31%	-7.91%	8,979.8
Russia TI	0.70%	10.06%	4,275.2

Asia/Pacific (Last Night)	% chg.	%YTD	Value
Nikkei 225 (Japan)	0.46%	1.32%	22,694.7
HK Hang Seng (H. Kong)	2.12%	-10.84%	25,801.5
Korea Kospi 100	1.51%	-12.03%	2,161.9
Singapore STI	0.71%	-6.73%	3,069.2
Shanghai Comp. (China)	0.91%	-19.27%	2,606.9
Bombay Sensex (India)	2.15%	3.01%	34,733.6
S&P/ASX 200 (Australia)	0.20%	1.74%	5,895.7

Global	% chg.	% YTD	Value
MSCI All-Country World Idx	-2.23%	-2.62%	489.4

Developed International	% chg.	%YTD	Value
MSCI EAFE	-2.23%	-7.08%	1,851.2

Emerging International	% chg.	%YTD	Value
MSCI Emerging Mkts	-3.15%	-15.68%	954.7

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	-1.70%	8.95%	847.4
Consumer Staples	-2.32%	-6.54%	536.4
Energy	-3.09%	3.24%	538.9
Financials	-2.93%	-4.06%	438.7
Real Estate	-2.90%	-3.88%	190.8
Health Care	-2.66%	10.02%	1,038.7
Industrials	-2.28%	-1.66%	618.1
Materials	-1.20%	-9.98%	336.1
Technology	-1.27%	10.00%	1,205.1
Communication Services	-0.84%	-6.21%	149.0
Utilities	-1.97%	3.23%	268.6

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	0.00%	-1.20%	27.2
FTSE NAREIT Comp.	-2.86%	-3.86%	16,627.7
DJ US Select Dividend	-2.28%	0.30%	1,983.9
DJ Global Select Dividend	0.46%	-9.45%	225.1
S&P Div. Aristocrats	-2.50%	-0.02%	2,463.7

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	0.46%	-2.05%	2,004.5
Barclays HY Bond	0.00%	1.50%	1,979.3

Commodities Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	0.00%	-6.03%	483.5
NYMEX WTI Crude (p/bbl.)	1.23%	18.90%	71.8
ICE Brent Crude (p/bbl.)	0.86%	21.06%	81.0
NYMEX Nat Gas (mmBtu)	0.16%	9.28%	3.2
Spot Gold (troy oz.)	-0.10%	-6.13%	1,222.9
Spot Silver (troy oz.)	0.83%	-13.18%	14.7
LME Copper (per ton)	0.12%	-13.16%	6,258.3
LME Aluminum (per ton)	-1.32%	-10.77%	2,013.0
CBOT Corn (cents p/bushel)	0.07%	-3.78%	369.5
CBOT Wheat (cents p/bushel)	0.69%	6.12%	511.5

Foreign Exchange (Intra-day)	% chg.	% YTD	Value
Euro (€/$)	-0.2%	-3.6%	1.16
British Pound (£/$)	-0.3%	-2.4%	1.32
Japanese Yen ($/¥)	-0.13%	0.34%	112.31
Australian Dollar (A$/$)	0.04%	-8.73%	0.71
Canadian Dollar ($/C$)	0.1%	-3.4%	1.30
Swiss Franc ($/CHF)	-0.1%	-1.7%	0.99

Data/Price Source: Bloomberg

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**	55.1%	Overweight	+5.0%	60.1%
2) **Canada**	3.0%	Underweight	- 1.0%	2.0%
3) **United Kingdom**	5.5%	Underweight	- 1.0%	4.5%
4) **Europe ex U.K.**	14.8%	Underweight	- 1.0%	13.8%
5) **Latin America**	1.2%	Equalweight	-	1.2%
6) **Asia-Pacific ex Japan**	11.8%	Equalweight	-	11.8%
7) **Japan**	7.6%	Underweight	- 1.0%	6.6%
8) **Middle East / Africa**	1.0%	Underweight	- 1.0%	-

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 9/26/18. Numbers may not add due to rounding.

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**	10.0%	Equalweight	-	10.0%
2) **Consumer Discretionary**	10.3%	Overweight	+2.0%	12.3%
3) **Consumer Staples**	6.7%	Underweight	- 3.2%	3.5%
4) **Energy**	6.0%	Overweight	+2.0%	8.0%
5) **Financials**	13.5%	Equalweight	-	13.5%
6) **Health Care**	15.0%	Equalweight	-	15.0%
7) **Industrials**	9.7%	Overweight	+2.0%	11.7%
8) **Information Technology**	20.9%	Equalweight	-	20.9%
9) **Materials**	2.5%	Equalweight	-	2.5%
10) **Real Estate**	2.6%	Equalweight	-	2.6%
11) **Utilities**	2.8%	Underweight	- 2.8%	0.0%

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ECONOMIC NEWS OUT TODAY:

Economic Releases for Friday, October 12, 2018. All times Eastern. Consensus estimates via Bloomberg.

Time	Period	Release	Consensus Est.	**Actual**	Prior	Revised to
8:30 AM	SEP	Import Price Index (MoM)	+0.2%	+0.5%	-0.6%	-0.4%
8:30 AM	SEP	Import Price Index (YoY)	+3.1%	+3.5%	+3.7%	+3.8%
10:00 AM	Oct. P	U. of M. Consumer Sentiment	100.5		100.1	

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

Fixed Income News & Views will return on Monday. Please see today's Morning Research Notes for Fixed Income Commentary

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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.

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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.

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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.

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