

October 12, 2018

### What Happened in the Markets?

- US Stocks rallied on Friday with the S&P 500 gaining 39 points or 1.4%, to close at 2,767. The Dow Jones Industrial Average rallied 287 points and the NASDAQ Composite also rallied 2.3%
- There were few obvious catalysts to point to for today's move, though a 3%+ rally for the Tech sector sent the market higher. Several banks reported earnings this morning with results mostly coming in above expectations; however, shares of those companies reporting experienced mixed performance today.
- Ten of the 11 S&P sectors finished the day higher with Technology (+3.2%), Discretionary (+2.2%) and Communications (+2.1%) leading on the day. Financials (+0.1%), Utilities (+0.1%) and Real Estate (-0.1%) were today's laggards.
- Global stocks were mixed in trading overnight with many major international indices posting only modest moves to either side. Outside of equities, Treasuries were little changed on the day, with the 10-year Treasury yield settling near 3.16% as of the 4 p.m. equity market close. Crude oil rallied slightly on the session while gold fell 0.5%.

### Catalysts for Market Move

A strong finish to a tumultuous week as the S&P 500 rallied 1.4% today, snapping a six-day losing streak. A rebound in Tech shares sent the market higher today. Treasury markets were largely stable today, with the 10-year rate finishing the session little changed. Earnings results from several large US banks came in mostly better than expected, though shares of reporting banks posted mixed results. A notable miss from one such bank also appeared to weigh broadly on sector sentiment, with Financials among today's worst performer, ending the day up only 0.1%. Earnings reports are likely to take center stage next week with more than 50 S&P 500 companies scheduled to report results.

Even with today's rally, the S&P 500 still ended the week 4% lower—the worst weekly return for the index since March. Year-to-date price performance now sits at 3.5%, much reduced from the 7.9% at the start of the week. Growth stocks fared better than value stocks in today's trading as a result of Tech's leadership. Value continues to lead this quarter, with the Russell 1000 Value Index outperforming the Russell 1000 Growth Index by more than 2%. The Global Investment Committee continues to advocate overweighting value stocks in the US relative to growth, and adopting a more defensive posture in US equities broadly, given some of the extremes in sector and style performance markets had seen this year.

While there was little in the way of specific new information to point to for this week's volatile trading, a host of concerns have appeared to weigh on the market in recent sessions. A move higher in Treasury yields has sparked fear that rising interest rates could put pressure on the US economy and US corporates. Further, there is concern that rising rates could pressure equity market valuations, as higher interest rates potentially make bonds a relatively more attractive investment. Outside of the move higher in yields, trade uncertainty remains in focus, particularly as it relates to ongoing friction between the US and China. Political uncertainty and rhetoric is likely to remain elevated as we near the upcoming midterm elections in the US next month. Finally, while the fundamental picture for US corporates has been strong in 2018, as we head into third-quarter reporting season, which begins in earnest next week, there are fears that growth could be peaking and elevated profit margins may come under pressure going forward as cost pressures emerge. To that end, several recent negative announcements from companies citing margin pressures have likely weighed on equity performance this week.

In response to this week's market volatility, earlier this week Lisa Shalett, Head of Morgan Stanley Wealth Management Investment Resources and Head of Investment & Portfolio Strategies, hosted a call to discuss the Global Investment Committee's views. A replay of the call is available through October 25. Dial-In: (855) 859 2056; passcode: 769 2308.

Market data provided by Bloomberg.

**Dow Jones Industrial Average (DJIA):** A price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry.

**NASDAQ Composite Index:** A broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

**S&P 500 Index:** The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks.

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