Baird Market and Investment Strategy

Mid-Week Market News

October 2, 2019



Please refer to Appendix - Important Disclosures.

Stocks Stumble to Start the Fourth Quarter

Stocks have started the fourth quarter on a rocky footing, with the S&P 500 posting back-to-back declines of more than 1%. After gains in September failed to carry the popular averages above their July highs, stocks have moved back into the trading range that persisted for much of August. A successful test of the August lows would be an encouraging sign that cyclical trends have improved. Beyond looking just at the headline moves in the S&P 500, we continue to watch for evidence that there has been a sustained shift toward broader rally participation than has been seen over the two years.

This week's selling has come in the wake of data that suggests downside risks to the economy may be intensifying. The manufacturing sector continues to weaken, CEO confidence is at its lowest level in a decade and the pace of private sector job growth is slowing. While geopolitical uncertainties are weighing on the business side of the economy, the effect on consumer confidence and activity has thus far been more muted. Thursday's weekly jobless claims and ISM non-manufacturing data and Friday's job's report could provide more near-term evidence about the resiliency of the US economy going forward. The lack of new lows in the price of copper is encouraging evidence that despite the near-term noise, economic conditions have not meaningfully deteriorated (in our latest Weight of the Evidence update, we still rate the economy neutral).

Bottom line: Elevated uncertainty is threatening economic confidence after September's stock market bounce ran out of steam. Near-term consolidation could yield to better opportunities later this quarter. 2840 on the S&P 500 appears to be an important level of near-term support.

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Robert W. Baird & Co. Page 2 of 3

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Robert W. Baird & Co. Page 3 of 3