

## Tariff Reprieve

The S&P 500 Index snapped a three-week decline on optimism the U.S. and China were making progress on the trade dispute. In an announcement on Friday, the U.S. agreed not to enact the scheduled October 15th tariff increases on \$250 billion of goods in exchange for China agreeing to purchase more U.S. agricultural products. What was called “Phase 1” of progress in the trade negotiations failed to address some of the core issues in the dispute to include protection of intellectual capital of U.S. firms operating in China. Given the erratic nature of the trade negotiations, more progress likely needs to be seen to give U.S. companies and investors the confidence to make plans and deploy investment capital in a post-trade dispute environment, but the current orientation is one of optimism.

Aside from the potential progress on trade, there were a few other issues providing optimism after a three-week market decline. The yield curve reverted back closer to its traditional shape versus the inverted shape that caused concerns about a recession earlier in the year. The Consumer Price Index and Producer Price Index reports for September also showed that inflation remains under control.

Barring a major trade or other geopolitical announcement, investors will switch focus to corporate earnings this week with 52 companies in the S&P 500 scheduled to report. Of the 23 that have already reported third quarter earnings, 91% have exceeded expectations, 4% have met expectations and 4% have reported below expectations. Current expectation is for a 3.2% decline in year/year earnings on 3.5% revenue growth versus last week’s consensus of a 2.7% earnings decline on a 3.6% increase in revenue. The Energy sector is expected to report the worst year/year changes in earnings and we explain some factors impacting the Energy sector in our *Dissecting Headlines* section below.

## Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	0.7%	18.5%	International Stocks (MSCI ex-US)	1.8%	10.5%
Dow Jones Industrial Average	0.9%	15.0%	Aggregate Bond Index	-0.8%	5.8%
NASDAQ 100	1.2%	23.9%	U.S. Dollar Index	-0.5%	2.2%
Russell 2000 (Small Cap Index)	0.8%	12.1%	WTI Crude Oil	3.6%	16.3%

Sources: S&P Global, Thomson Reuters

## Dissecting Headlines: The Energy Sector

As mentioned above, the current third quarter earnings expectation for S&P 500 companies is for a 3.2% decline in year/year earnings on 3.5% revenue growth. Excluding the Energy sector, the consensus expectation for S&P 500 earnings is for a 1.0% decline in year/year earnings on a 4.6% increase in revenue. The Energy sector represents 4.5% of the S&P 500 Index and earnings for energy companies are expected to decline 34.3% year/year on a revenue decline of 6.1%.

What is the S&P Energy sector and what’s going on? The S&P Energy sector consists of 28 companies engaged in the exploration, production, transportation, and distribution of crude oil, natural gas, and transportation fuels. Earnings for the sector can be volatile since the price of crude oil and natural gas impact the dollar volume of sales. The average price for a barrel of crude oil during the third quarter of 2019 was \$56.44 versus an average of \$69.43 during the third quarter of 2018 (-18.7%). Natural gas prices averaged \$2.326 per million BTUs (British Thermal Units) in the third quarter of 2019 versus \$2.865 in the third quarter of 2018 (-18.8%). There are other puts and takes such as volumes, operating efficiencies, financing costs, and changes in capital structure, but, in general, when companies sell a similar volume of goods at a lower price, they lose operating leverage and the earnings impact can be greater than the revenue impact.

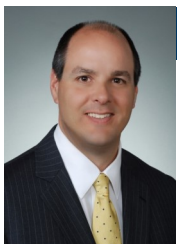
*NovaPoint Capital owns S&P Energy sector constituents Exxon Mobil, Chevron, and EOG Resources in its NovaPoint Dividend Growth Strategy.*

## The NovaPoint Capital Team



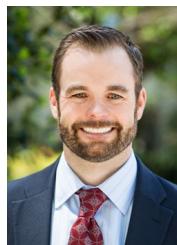
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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is Certified Plan Fiduciary Adviser (CPFA) and an endurance athlete and three-time IRONMAN finisher.



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Jeff has 9 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 25 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 and has also worked at Balentine & Co, Wright Investment Management, and Smith Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).

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