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## MARKETS

# Unloved Assets Join Market Rally in Latest Sign of Optimism

Several factors weighing on markets, such as Brexit and U.S.-China trade, are showing signs of better-than-expected outcomes

*By Ira Iosebashvili and Amrith Ramkumar*

Nov. 10, 2019 5:00 am ET

Investors are piling into beaten-up assets from commodities to emerging-market stocks, powering a broad rally that reflects a brightening outlook for the global economy.

The British pound is up more than 6% from recent multiyear lows, while a rebound in China's yuan has lifted a broad range of currencies. Emerging-market equities have also bounced back from a steep selloff earlier in the year, and a rise in oil is leading a rally in commodities that has buoyed everything from copper to coffee.

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*Are you optimistic about the growth of global stocks, emerging markets and commodities? Why or why not? Join the conversation below.*

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Driving the gains are signs of better-than-expected outcomes to several issues that have weighed on markets for most of the year. The U.S. and China are approaching an initial accord on trade; the world's biggest central banks have slashed interest rates to curtail a manufacturing slowdown; and the odds of a disorderly U.K. exit from the European Union are declining.

Coupled with a climb in U.S. shares that has pushed major indexes to fresh highs, the moves highlight investors' sudden optimism after months of caution.



Early signs that 'the global economy is finding a floor' have encouraged investors. A welder at a manufacturing plant in Hangzhou, Zhejiang province, in China. PHOTO: CHINA DAILY/REUTERS

“There are some early indications that the worst may be behind us and the global economy is finding a floor,” said Candice Bangsund, a portfolio manager at Fiera Capital.

Ms. Bangsund has been encouraged by a three-month rebound in the J.P. Morgan Global Manufacturing Purchasing Managers' Index, as well as more-productive trade negotiations. She is betting the rally will be especially good for Canadian stocks, where miners and energy companies are heavily represented, as well as European banks.

Investors this week will monitor October figures on inflation, retail sales and industrial production to assess how the U.S. economy could perform in the final quarter of the year. Better-than-expected third-quarter growth figures and steady hiring data from last month have also helped power the recent market rally.

Since the world's two-largest economies agreed on initial steps toward a trade deal last month, emerging-market stocks and oil have each risen about 7%, followed closely by European shares. Oil and stock benchmarks for the U.S., Europe and emerging markets are on pace to all climb at least 10% in the same year for the first time since 2009.

Currencies that are sensitive to global growth and trade including the South Korean won and Australian dollar have climbed in lockstep.

“We think it's time to deploy money into markets broadly,” said Olivier Marciot, senior vice president and investment manager at Unigestion. “It's like a baby Goldilocks environment,” he said, referring to stable economic growth, low inflation and favorable interest rates.

Mr. Marciot has been increasing stakes in emerging-market assets while betting against volatility in U.S. stocks and reducing positions in the credit market.

Even within U.S. stocks, some investors are favoring so-called cyclical areas more tied to the economy that have become cheaper than fast-growing sectors like technology. The financial and industrial sectors have been the S&P 500's best performers in the past month.

Clark Kendall, president and CEO of Kendall Capital, said he has been buying shares of U.S. companies that appear inexpensive, including power company Generac Holdings Inc., engine company Cummins Inc. and freight carrier Werner Enterprises Inc., which he thinks could do well if more widely owned investments falter.

"Those are the things you want to own, not the 10-year Treasury," Mr. Kendall said. "We're seeing a shift in the market."

The yield on the benchmark 10-year U.S. Treasury note, which helps set borrowing costs on everything from student debt to mortgages, has pared some of its monthslong decline in recent weeks, stabilizing after approaching record lows earlier in the year. Yields fall as bond prices rise. The recovery has also carried some yields on long-term European government bonds out of negative territory for the first time in months.

Other safe assets that soared earlier in the year, such as gold and the Japanese yen, have also fallen.

The drop in havens is reinforcing the advance in riskier sectors, underscoring momentum that some investors say could be hard to bet against heading into the end of the year.

"I wouldn't want to fight that right now," said Shannon Saccocia, chief investment officer of Boston Private, which has maintained its positions in stocks and corporate bonds in recent months. "You'd be really hard pressed to go back to your clients at this point and say, 'These are all the reasons I'm being conservative.'"

Some investors are seeking alternatives to U.S. stocks, which have outpaced global markets for years and are more expensive relative to corporate profits. If the global stock rally continues, some analysts think it could signal a shift in leadership to cheaper options overseas.

"We definitely see opportunities outside the U.S.," said Gene Goldman, chief investment officer at Cetera Investment Management, which has been adding to stakes in developed international markets like Europe recently. "The data is not that great but is starting to beat very low expectations."

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