Weekly Capital Market Comments

March 22, 2019

NORTHEAST | SEQUOIA
PRIVATE CLIENT GROUP

Like Putting A Band Aid On A Broken Leg

Weekly Review

Equities once again finished the week (Thursday-Thursday) in positive territory, higher by 1.7%, helped in no small part by an overly dovish Federal Reserve. YTD the S&P now stands up by over 14%, 2.6% below its all-time high and has recovered over 21% since its Christmas Eve lows. Fixed-income indices were also higher this week, led by the Barclay's/Bloomberg Agg, which increased 60bps. Growth was the top-performing style this week, up by almost 3%, and now stands higher by over 19% YTD; lagging were Value oriented styles, up only between 40bps-90bps. And despite disappointing earnings, Technology continues to roar ahead from a sector perspective, higher by almost 4% this week and up over 22% YTD. Financials lagged, as the dovish fed impacted not only the yield curve, but tempered the US$ as well.

From a Greenspan Put, to Helicopter Ben…And Now The Powell Pivot

Once again, the FOMC came to the rescue of a market that was poised for consolidation. Not only did the Federal Reserve keep overnight borrowing rates unchanged at their second FOMC meeting this year but signaled no additional rates hikes throughout 2019. In addition, The Fed also downgraded its expectations for domestic growth; reducing '19 and '20 GDP forecasts to 2.1% and 1.9%, from 2.3% and 2.0%, respectively. And at the same time, it reduced its expectation for the median Fed Funds Rate to 2.4% from 2.9% in '19. This was the second such downward revision in their Summary Economic Projections (SEP) in as many releases. This is a stark juxtaposition in the Fed's stance from October/November of 2018, when Chairman Powel suggested that not only was Fed "a long way from neutral", but the economy was strong enough to withstand 2-3 rate-hikes in '19 ("gradual"…as he put it). In addition, any run-off would remain on autopilot, with expectations of a balance sheet well below the current $3.5-$3.7 trillion market forecast (as a signpost, the Fed's balance sheet prior to the Great Recession was only $875 billion).

To put it simply, we just don't get it. From our perspective, we interpreted the Fed's actions and statement this past Wednesday as bearish for equities; as a Fed looking to stave off any inkling of recession, or an outright acknowledgment of a US slowdown (clearly not consistent with a dual mandate of promoting price stability and maximum employment). Further, we thought Mr. Market interpreted the same, given late-day trading on Wednesday. But Thursday's price action once again proved us wrong, and further instilled the Keynesian quote from last week's note, that markets can stay irrational longer than investors can stay solvent. However, the current environment is not new to us; we have seen this movie before. We have frequently "white knuckle" through periods of irrational price action that were not supported by fundamentals. But in almost every case, fundamentals would ultimate prove out. And the more irrational stage that supported any melt-up in equities (or bonds), was followed by an equally sever retracement.

So we remain vigilant that this is not an "if" scenario, but rather a "when" scenario, and believe any significant upside in market valuations will be hard to sustain. We continue to note the secular trends witness in credit spreads, the noticeable downward revision in S&P operating earnings, the plateauing of employment trends, and the absence of any substantive fiscal policy initiatives (just to name a few), all seeming being overlooked and dismissed by the broader equity market. So the "when" is tricky and reserved only for Monday-Morning Market Timing Quarterbacks, which we are not. The "how much" is equally as tricky as we continue to navigate through unprecedented financial markets buttressed with extraordinary monetary and fiscal policy band aids both here and abroad. Therefore, we continue to suggest to clients to de-risk and reduce equity allocations in the near-term. We continue to favor value-oriented investments (despite their 300bps YTD market under performance) over growth. And we see preferred equities as corporate bond surrogates, offering solid credit support as well as attractive yields. Fixed income allocations should also include barbelled municipals, helping to either boost after tax returns (especially if you live in a SALT state) and providing dry powder for any irrational correction to the downside (similar to late December 2019). **We'd love to hear your thoughts.**

	Domestic Indices	1Week
1	NASDAQ Composite PR	2.7%
2	S&P 500 TR	1.7%
3	DJ Industrial Average TR	1.0%
4	NYSE Composite PR	1.0%
5	S&P MidCap 400	0.9%
6	Russell 2000 TR	0.8%
7	BBgBarc US Agg Bond TR	0.6%
8	BBgBarc US Government TR	0.5%
9	BBgBarc Municipal TR USD	0.5%
10	ICE BofAML US High Yield TR	0.5%
11	BBgBarc US MBS TR	0.5%
12	US Inter Gov Bd TR Bond	0.47%

	Style Stratification	1Week
1	US Growth	2.7%
2	US Large Growth	2.6%
3	US Mid Growth	2.4%
4	US Large Cap	1.7%
5	US Market	1.6%
6	US Mid Cap	1.3%
7	US Large Core	1.1%
8	US Mid Core	1.1%
9	US Core	1.1%
10	US Large Val	0.9%
11	US Mid Val	0.4%

	Sector Stratification	1Week
1	US Technology	3.8%
2	US Energy Capped	2.8%
3	US Snstve Sup Sec	2.7%
4	US Consumr Cyclcl	2.5%
5	US Commun Svc Capped	1.9%
6	US Basic Materials	1.5%
7	US Consumr Dfnsve	1.5%
8	US Dfnsve Sup Sec	1.0%
9	US Healthcare	1.0%
10	US Industrials	0.8%
11	US Cyclcl Sup Sec	0.6%
12	US Real Estate	0.6%
13	US Utilities	0.4%
14	US Financial Services	-1.1%

	Bond Indices	1Week
1	US Lng Corp Bd TR Bond	1.3%
2	US Lng Core Bd TR Bond	1.3%
3	US Lng Gov Bd TR Bond	1.3%
4	US TIPS TR	0.9%
5	US Corp Bd TR Bond	0.8%
6	US Core Bd TR Bond	0.6%
7	US Inter Corp Bd TR Bond	0.6%
8	US Gov Bd TR Bond	0.6%
9	BBgBarc Municipal TR USD	0.5%
10	US Inter Core Bd TR Bond	0.5%
11	ICE BofAML US High Yield TR	0.5%
12	Mortgage TR Bond	0.5%
13	US Inter Gov Bd TR Bond	0.5%
14	US Shrt Gov Bd TR Bond	0.2%

	International Markets	1Week
1	SSE Composite PR CNY	2.7%
2	FTSE 100 TR GBP	2.5%
3	MSCI EM PR USD	2.1%
4	MSCI Pacific NR USD	1.8%
5	MSCI Japan PR LCL	1.6%
6	Nikkei 225 Average PR JPY	1.5%
7	MSCI EM PR LCL	1.5%
8	MSCI World ex USA NR USD	1.3%
9	MSCI Europe NR USD	1.2%
10	MSCI Pacific PR LCL	1.1%
11	MSCI World Ex USA PR LCL	1.1%
12	MSCI Europe PR LCL	1.0%
13	Euronext Paris CAC 40 NR EUR	0.6%
14	MSCI EM Latin America PR USD	0.6%

Source: Morningstar.com

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