

Weekly Capital Market Comments

Friday, January 11, 2019

Thinking Through 2019

As we continue to form our opinions for 2019, we provide our SWOT (strengths, weakness, opportunities and threat) analysis for equity and fixed-income markets going forward.

Strengths	Weakness
<ul style="list-style-type: none"> US relative strength: While slowing global growth is evident, the US is in a much stronger position, which could attract capital. In addition, we would suggest that the US economy is cooling, and not in decline – and important distinction investors must understand. Even with no earnings growth, the S&P is trading below 16x on forward earnings, a fair and attractive level from a historical perspective. Low Inflation: Core CPI around the globe seem muted, and deflation could present as a larger risk than inflation; equities do not like inflation. Pragmatic Federal Reserve: After flip-flopping in messaging, the Fed is tilting more dovish while messaging in a more constant manner. Still Accommodative: Even with the modest backup in rates, the effective Fed Funds rate, as well as 10yr TSY is still low, comparatively. 	<ul style="list-style-type: none"> Slowing Global Growth: It is quite clear that growth in the US, as well throughout major developed economies continues to cool. Late Cycle Dynamics: The US continues to exhibit late-cycle dynamics related to market volatility. Tighter Financial Conditions: Conditions relating to borrowing, lending, manufacturing, credit spreads, and asset volatility all have exhibited a degree of tightening, which ultimately temper growth; this despite the recent 10-day recovery in risk assets. Credit Spreads Are Widening: Despite the recent contraction in spreads, both Baa and junk spread are widest they have been since late 2016. Affordability Hitting Housing: Demand for single family housing remains solid, but the ability to afford homes, especially for first-time buyers has dampened growth.
Opportunities	Threats
<ul style="list-style-type: none"> Geopolitical: China exhibits a real willingness to curb intellectual property theft (aka tariffs), and also help pressure N. Korea into denuclearization. Housing: The uptick in rates late in '18 dented the demand for housing, causing negative price action in homebuilders, supplier, and the second derivative economic demand associated with housing. If rates remain on hold, especially against a backdrop of solid employment, we could see near-term bottom in housing. Top in US\$: A top in the US\$ could help extend the current economic expansion and help stabilized EM debt and equity. Chinese Stimulus: Much of the upside in US equities over the last 12 months was driven by the fiscal stimulus ushered in with the Tax Cut and Jobs Act. A move to increase fiscal stimulus by China, could help settle global markets. 	<ul style="list-style-type: none"> Geopolitical: There are many; North Korea, China, Populism in Europe resulting additional block defections, BREXIT not passing, Italian debt. Rates: The recent expected pause that was priced in virtually overnight, could reverse just as quick. Govt' Stalemate/Impeachment: At the time of the writing, the government shutdown is about to be 20 days old. Recession Risk: There remains a risk that the cumulative impact of Threats and Weakness result in higher probability of recession. JOLTs Rolling Over: While the latest employment report was solid, our 2nd and 3rd derivative measures (soft data) are rolling over. The Job Openings rate is topping out, and is one of several measures doing so.

Domestic Indices		1Week
1	Russell 2000 TR	8.6%
2	NASDAQ Composite PR	8.1%
3	S&P MidCap 400	8.0%
4	S&P 500 TR	6.1%
5	DJ Industrial Average TR	5.8%
6	NYSE Composite PR	5.8%
7	ICE BofAML US High Yield TR	2.9%
8	BBgBarc Municipal TR USD	-0.2%
9	BBgBarc US MBS TR	-0.6%
10	BBgBarc US Agg Bond TR	-0.7%
11	US Inter Gov Bd TR Bond	-0.9%
12	BBgBarc US Government TR	-1.0%

Style Stratification		1Week
1	US Mid Growth	9.1%
2	US Small Cap	8.9%
3	US Growth	8.4%
4	US Mid Cap	7.6%
5	US Large Growth	7.5%
6	US Mid Core	7.5%
7	US Market	6.5%
8	US Core	6.3%
9	US Mid Val	6.2%
10	US Large Cap	6.0%
11	US Large Core	5.8%
12	US Large Val	4.3%

Sector Stratification		1Week
1	US Energy Capped	8.5%
2	US Technology	8.2%
3	US Industrials	8.2%
4	US Consumr Cyclcl	8.0%
5	US Snstve Sup Sec	7.8%
6	US Basic Materials	6.8%
7	US Cyclcl Sup Sec	6.3%
8	US Healthcare	5.9%
9	US Commun Svc Capped	5.6%
10	US Real Estate	5.6%
11	US Financial Services	5.0%
12	US Dfnsvs Sup Sec	4.6%
13	US Utilities	2.9%
14	US Consumr Dfnsvs	2.8%

Bond Indices		1Week
1	ICE BofAML US High Yield TR	2.9%
2	BBgBarc Municipal TR USD	-0.2%
3	US Corp Bd TR Bond	-0.3%
4	US Lng Corp Bd TR Bond	-0.3%
5	US TIPS TR	-0.3%
6	US Inter Corp Bd TR Bond	-0.3%
7	US Shrt Gov Bd TR Bond	-0.4%
8	Mortgage TR Bond	-0.6%
9	US Inter Core Bd TR Bond	-0.6%
10	US Core Bd TR Bond	-0.7%
11	US Inter Gov Bd TR Bond	-0.9%
12	US Gov Bd TR Bond	-1.0%
13	US Lng Core Bd TR Bond	-1.1%
14	US Lng Gov Bd TR Bond	-2.0%

International Markets		1Week
1	MSCI Europe NR USD	5.5%
2	FSE DAX TR EUR	4.9%
3	MSCI World ex USA NR USD	4.8%
4	MSCI Europe PR LCL	4.2%
5	Euronext Paris CAC 40 NR EUR	4.2%
6	Nikkei 225 Average PR JPY	4.1%
7	MSCI Pacific Ex Japan PR LCL	4.0%
8	MSCI World Ex USA PR LCL	3.8%
9	FTSE 100 TR GBP	3.7%
10	MSCI Pacific NR USD	2.9%
11	MSCI Pacific PR LCL	2.7%

Source: Morningstar.com

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