

Climbing The Wall Of Worry

Weekly Review

Equities ended the week (Thursday-Thursday) in the green as positive market sentiment was triggered by: 1) the avoidance of another government shutdown, and 2) optimism that a tentative trade agreement will not lead to a 25% tariff on an additional \$200bn of Chinese imports (despite missing the March 1 deadline). At the same time, fixed-income indices finished the week unchanged, perhaps partly due to a significant disappointment in December Retail Sales. High Yield was once again the top performing fixed-income sub-group, while Growth was the top performing equity style. Mid-Cap Growth was higher by 2.7%, followed by All-Cap Growth and Large-Cap Growth, that were each higher by 2.4% and 2.2%, respectively. The Energy and Industrials sectors outperformed, higher by 3.0% and 2.4%, respectively, while value-oriented and cash-flow generating sectors such as Real Estate and Utilities, lagged, higher by only 0.5% and 0.2%, respectively. **Clearly investors are once again bolting on risk.**



We Are Not Sounding The All Clear Just Yet

As we suggested last week, any walk back in a tariff deadline would have positive implications for the market. But the big surprise from our perspective this week was that the POTUS “seemingly” blinked on the home front, by begrudgingly accepting a \$1.38bn wall funding deal, well below the \$5.70bn that was demand – only to subsequently announce he would declare a “national security and humanitarian crisis” to backfill the deficit. Still, by doing so, the US economy has avoided yet another shut down and at the same time is deescalating trade tensions with China. But we continue to maintain (despite the 2.5% move in the S&P since last Thursday), tactical investors should continue to sell the equity rally in stocks and fade the risk-on/credit bounce in fixed income; as in our opinion, there is still plenty to be concerned about. This, especially given the massive rally in equities YTD. For example, the Russell 2000 (which represents small cap names) is higher by over 15% YTD, while the NASDAQ and the S&P are higher by over 12% and 10%, respectively. We continue to focus strategic investors to a “value-tilt” bias for equities, and even now suggesting that tactical investors/traders should follow suit. The biggest near-term risk to our more cautious valuation position is the relative strength of the US economy compared to other developed nations and markets. The US remains “the cleanest dirty-shirt” among developed economies, and with equity markets now pricing in rate cuts versus rate increases, we believe the sugar high from near-term immigration and trade war “fix,” will be followed by a commensurate hangover. **We’d love to hear your thoughts.**

Domestic Indices		1Week
1	Russell 2000 TR	2.7%
2	S&P MidCap 400	2.1%
3	NASDAQ Composite PR	1.9%
4	S&P 500 TR	1.6%
5	DJ Industrial Average TR	1.2%
6	NYSE Composite PR	1.2%
7	ICE BofAML US High Yield TR	0.4%
8	BBgBarc Municipal TR USD	0.1%
9	BBgBarc US MBS TR	0.0%
10	BBgBarc US Agg Bond TR	0.0%
11	US Inter Gov Bd TR Bond	0.0%
12	BBgBarc US Government TR	0.0%

Style Stratification		YTD
1	US Mid Growth	2.7%
2	US Growth	2.4%
3	US Large Growth	2.2%
4	US Mid Cap	1.9%
5	US Mid Core	1.8%
6	US Market	1.7%
7	US Large Cap	1.5%
8	US Core	1.5%
9	US Large Core	1.3%
10	US Mid Val	1.3%
11	US Large Val	1.3%

Sector Stratification		YTD
1	US Energy Capped	3.0%
2	US Industrials	2.4%
3	US Technology	2.3%
4	US Snstve Sup Sec	2.3%
5	US Basic Materials	2.2%
6	US Healthcare	2.0%
7	US Consumr Cyclcl	1.6%
8	US Dfnsv Sup Sec	1.4%
9	US Cyclcl Sup Sec	1.1%
10	US Commun Svc Capped	1.1%
11	US Consumr Dfnsv	0.8%
12	US Financial Services	0.7%
13	US Real Estate	0.5%
14	US Utilities	0.2%

Bond Indices		YTD
1	ICE BofAML US High Yield TR	0.4%
2	BBgBarc Municipal TR USD	0.1%
3	US TIPS TR	0.1%
4	US Inter Corp Bd TR Bond	0.1%
5	US Corp Bd TR Bond	0.1%
6	US Lng Corp Bd TR Bond	0.0%
7	US Lng Core Bd TR Bond	0.0%
8	US Core Bd TR Bond	0.0%
9	US Shrt Gov Bd TR Bond	0.0%
10	US Inter Core Bd TR Bond	0.0%
11	Mortgage TR Bond	0.0%
12	US Lng Gov Bd TR Bond	0.0%
13	US Gov Bd TR Bond	0.0%
14	US Inter Gov Bd TR Bond	0.0%

International Markets		YTD
1	Nikkei 225 Average PR JPY	2.8%
2	SSE Composite PR CNY	2.5%
3	FTSE 100 TR GBP	1.7%
4	Euronext Paris CAC 40 NR EUR	1.5%
5	MSCI Japan PR LCL	1.3%
6	MSCI Europe PR LCL	1.2%
7	MSCI Pacific PR LCL	1.1%
8	MSCI World Ex USA PR LCL	1.0%
9	FSE DAX TR EUR	0.6%
10	MSCI Pacific Ex Japan PR LCL	0.6%
11	MSCI EM Latin America PR USD	0.5%
12	MSCI Pacific NR USD	0.5%
13	MSCI Europe NR USD	0.4%
14	MSCI World ex USA NR USD	0.3%

Source: Morningstar.com

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