Weekly Capital Market Comments

June 21, 2019

NORTHEAST | SEQUOIA
PRIVATE CLIENT GROUP

Threading the Needle

Weekly Review

Equity markets rallied hard over the last five trading days (Thurs-Thurs), initially driven by a dovish ECB earlier in the week, culminating with a finely tuned move/no move release on behalf of the Fed. The S&P 500 was higher by 2.2%, making an all-time high while the NASDAQ was up 2.7%; these indices are now up YTD by 19% and 21%, respectively. As you would have guessed, Growth lead the charge, with the Large Cap Growth higher by 3.0%. And as past is prologue, Value lagged, higher by only 1.6%. The beleaguered Energy Sector outperformed for the week, higher by 3.7%, but still is down almost 16% over the last 12-months. The Technology Sector was close behind, up by 3.1% for the week, led by Adobe, FaceBook and Oracle, higher by 9.3%, 6.8% and 5.9%, respectively. Fixed-Income also enjoyed solid gains this week, with Long Corporates higher by 2.1%, while Mortgages and Munis lagged, up only 0.4% and 0.2%, respectively. Duration continues to outperform YTD, with Long Corporates, Core and Governments higher by 13.4%, 11.4% and 9.3%, respectively. EM began to participate in the equity bid once again, after some YTD see-saw (strong/week) price momentum, led by the Shanghai Composite, higher for 4.2% on the week, and now up 20% YTD. Oil rebounded, after Iranian drone attacks, and expectations of US retaliation, while Gold advanced over 4% and the US$ was under pressure for the week down by about 1%. And finally, the 10yr, closing the week at around 2.0%, touch as low as 1.98% from the week-ago levels of over 2.10%

The FOMC and Chairman Powell delivered – and then some – for market bulls this week, by suggesting the Fed stands willing and able, if conditions warrant, to cut rates in order to keep the economy from faltering. Moreover, he did it in a very succinct manner, as to not heighten concerns about the potential for a more severe contraction in the economy. We were pleasantly surprised with the latter, as Chairman Powell has sometimes communicated "too clearly" one direction, only to quickly reverse the position. Further, the drafting of the FOMC press release, and his answers in the subsequent press conference also provided vagaries and innuendos, like how his predecessors communicated – therefore leaving something for everyone to take away. As a result, the S&P pushed higher by 1.2% over the last two days, closing at an all-time high of 2,954. At these levels, the large-cap index is trading back to 16.8x forward earnings (almost 1 full turn higher from May 24th), and ever so close to the 17x handle that we still think will pose as a resistance level. But as quickly as talking heads were lauding the move up in equities, they were equally as cautious in terms of what is priced into the market, and the potential downside. Even one commentator on CNBC echoed our phrase, "Be careful what you wish for." According to Goldman Sachs, there is almost a 100% chance of at least one 25bps cut in the next 12 months, up to a 90% chance of up to three (3) cuts, and almost a 50% chance of four (4) cuts or more. Even in the middle scenario, this would bring the Fed Funds Rate down close to 1.75%, leaving only a handful of cuts – if indeed the economy were to enter a recession. That is not too much room to move. But the Fed is just part of the global easing cycle that was reinforced earlier this week when the European Central Bank (ECB) pledged additional stimulus amid slowing inflation across the Eurozone. So, this all brings us back to our original thesis, that if the Fed doesn't follow through in July with at least 25bps, we could be re-testing early late-May lows. And if they cut more than 25 bps, this suggests the economy is in worse shape than Chairman Powell's current assessment. Basically, a lose/lose.

We'd love to hear your thoughts.

As a reminder, we will be conducting the kickoff of our House View webinar series. You can register in advance for this webinar via the following URL below. We hope you can attend.

Date: This upcoming Wednesday, June 26th
Time: 3:00PM EST.

[The House View | Summer 2019]

After registering, you will receive a confirmation email containing information about joining the webinar.

Domestic Indices		1Week
1	NASDAQ Composite PR	2.7%
2	DJ Industrial Average TR	2.5%
3	S&P 500 TR	2.2%
4	NYSE Composite PR	2.0%
5	Russell 2000 TR	1.8%
6	S&P MidCap 400	1.5%
7	ICE BofAML US High Yield TR	1.0%
8	BBgBarc US Agg Bond TR	0.7%
9	BBgBarc US Government TR	0.6%
10	US Inter Gov Bd TR Bond	0.4%
11	BBgBarc US MBS TR	0.4%
12	BBgBarc Municipal TR USD	0.2%

Style Stratification		1Week
1	US Large Growth	3.0%
2	US Growth	2.8%
3	US Large Cap	2.3%
4	US Small Growth	2.3%
5	US Market	2.2%
6	US Mid Growth	2.1%
7	US Large Core	1.9%
8	US Core	1.9%
9	US Mid Cap	1.8%
10	US Mid Core	1.8%
11	US Mid Val	1.6%
12	US Large Val	1.6%

Sector Stratificiation		1Week
1	US Energy Capped	3.7%
2	US Technology	3.1%
3	US Snstve Sup Sec	2.9%
4	US Healthcare	2.6%
5	US Industrials	2.5%
6	US Commun Svc Capped	2.4%
7	US Consumr Cyclcl	2.0%
8	US Dfnsve Sup Sec	1.8%
9	US Real Estate	1.8%
10	US Utilities	1.7%
11	US Cyclcl Sup Sec	1.5%
12	US Financial Services	1.2%
13	US Basic Materials	0.8%
14	US Consumr Dfnsve	0.4%

Bond Indices		1Week
1	US Lng Corp Bd TR Bond	2.1%
2	US Lng Core Bd TR Bond	1.6%
3	US Corp Bd TR Bond	1.2%
4	US TIPS TR	1.2%
5	US Lng Gov Bd TR Bond	1.1%
6	ICE BofAML US High Yield TR	1.0%
7	US Inter Corp Bd TR Bond	0.8%
8	US Core Bd TR Bond	0.7%
9	US Gov Bd TR Bond	0.5%
10	US Inter Core Bd TR Bond	0.5%
11	US Inter Gov Bd TR Bond	0.4%
12	Mortgage TR Bond	0.4%
13	BBgBarc Municipal TR USD	0.2%

International Markets		1Week
1	SSE Composite PR CNY	4.2%
2	MSCI EM PR USD	3.1%
3	MSCI Pacific Ex Japan PR LCL	3.1%
4	Euronext Paris CAC 40 NR EUR	3.0%
5	MSCI Pacific NR USD	2.6%
6	MSCI EM PR LCL	2.2%
7	MSCI World ex USA NR USD	2.2%
8	Nikkei 225 Average PR JPY	2.1%
9	MSCI Pacific PR LCL	2.0%
10	MSCI Europe NR USD	1.8%
11	MSCI EM Latin America PR USD	1.7%
12	MSCI World Ex USA PR LCL	1.7%
13	FSE DAX TR EUR	1.5%
14	MSCI Europe PR LCL	1.4%

Source: Morningstar.com