Weekly Capital Market Comments

June 7, 2019

NORTHEAST | SEQUOIA
PRIVATE CLIENT GROUP

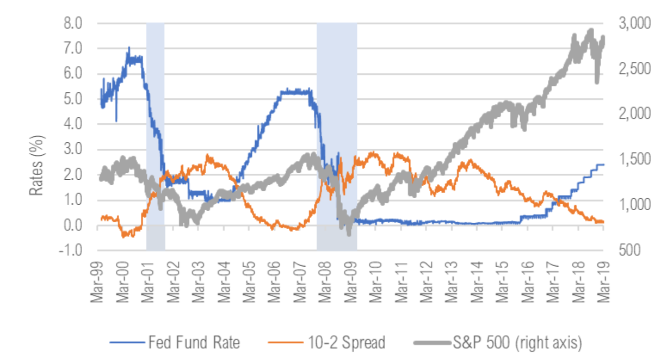
Easy Does It !

Weekly Review

Markets staged a relief rally this week (Thurs-Thurs). Positive rhetoric early on, suggesting delays/progress in the new fiscal trade policy with Mexico helped support equities, as the S&P 500 was higher by 2%. However, the tech-heavy NASDAQ lagged broader equities up only 0.6% for the week; still both indices are higher YTD by almost 15%. Bonds were also somewhat for bid this week, especially after today's employment miss. Over the last 5 trading days the US 10yr came in 10bps, closing Thursday at 2.12%, and contracted another 6bps this morning and currently stands at 2.06% (levels last seen almost two years ago). Mid-cap names once again outperformed on the week, with Value leading the charge – while Growth lagged. From a sector perspective, Basic Materials (cyclicals) lead, but Defensive sectors such as Utilities, and Consumer Defensives followed, indicating no clear preference among investors, except to buy into names that recently (cyclicals) sold off. As we pointed out last week, we continue to monitor TIPs, which lead bond indices higher this week, up 70bps, to see if inflation fears are truly creeping into institutional manager's purview. While at the same time, High Yield lagged, higher by only 30bps; HY now is now the worst performing bond index over the last month. Haven assets were for bid once again; Gold was higher by over 4%, while Oil continues to consolidate, down roughly 7% for the week.

We believe the most important topic to discuss this week is the notion of **Fed easing.** This subject has been all over the financial networks/press over the last few days. **It has also been an issue we have been in front of for a few months now.** Our primary thesis still holds, that if equity market participants are looking (waiting) for Fed action (easing) to help support markets, they better be careful what they wish for. As we continue to remind clients, **if the Fed begins to cut rates amid an inverted yield curve, the economy shortly succumbs to recession, but not before a significant equity sell-off.** And while the 10yr/2yr spread remains positive by 28bps, the 10yr/3mn spread has been negative since May 23, and currently stands at negative 20bps. In addition, last we checked, the Federal Reserve has only a dual mandate; price stability and full employment. Nowhere does it suggest monetary policy should support equity markets, or kowtow to Executive whims (we are not Turkey). And while, today's employment number (and previous monthly revision) support the notion off a slowing economy, it should not be the sole reason for monetary easing. But then there is the price stability (aka inflation) argument. Unless Chairman Powell does a 180on positioning (which we doubt he will), any near-term softness of inflation data (CPI, PCE deflator, import prices, AHE) has been, and will continue to be viewed as "transitory" by the Fed. **So, in both cases, if you follow the conventional group think, the Fed should hold rates steady for now. Further, if employment growth resumes and/or inflation prospects hooks up, there should be a hike and not a cut.** *But for the record, we remain wary of significant upside or dramatic reacceleration of employment trends, and we believe barring any protracted trade disputes, the US will continue to endure through a period of tame inflation through at least '20.* Moreover, we believe the last thing the US economy (and capital market) need at this point, is to re-live the Nixon/Volker years, not because of the scandals or hyperinflation backdrop, but rather the consequences of "stop-and-go" monetary policy. During that period, the Fed Funds rate went from a low of roughly 3.3% in February of '72, to a high of almost 13% in July '74; then back down to 4.6% in January '77, only to surge back up to 19% by '79/'80. Oh – and by the way, the US suffered through three recessions during this period (including the '80/'81

Exhibit 1: Be Careful What You Wish For – Inversion & Fed Cuts



Source: NEPCG and FactSet

Domestic Indices	1Week
1 S&P MidCap 400	2.9%
2 NYSE Composite PR	2.3%
3 DJ Industrial Average TR	2.3%
4 S&P 500 TR	2.0%
5 Russell 2000 TR	1.2%
6 US Inter Gov Bd TR Bond	0.7%
7 NASDAQ Composite PR	0.6%
8 BBgBarc US Government TR	0.6%
9 BBgBarc US Agg Bond TR	0.5%
10 BBgBarc US MBS TR	0.4%
11 ICE BofAML US High Yield TR	0.3%
12 BBgBarc Municipal TR USD	0.2%

Style Stratification	1Week
1 US Mid Val	3.5%
2 US Mid Cap	3.0%
3 US Mid Growth	2.9%
4 US Large Core	2.8%
5 US Core	2.7%
6 US Mid Core	2.7%
7 US Large Val	2.5%
8 US Market	2.1%
9 US Large Cap	1.8%
10 US Small Growth	1.6%
11 US Large Growth	1.1%
12 US Growth	1.1%

Sector Stratification	1Week
1 US Basic Materials	6.3%
2 US Utilities	4.5%
3 US Consumr Dfnsve	2.9%
4 US Dfnsve Sup Sec	2.7%
5 US Financial Services	2.7%
6 US Real Estate	2.7%
7 US Industrials	2.6%
8 US Cyclcl Sup Sec	2.5%
9 US Healthcare	2.2%
10 US Energy Capped	1.8%
11 US Consumr Cyclcl	1.5%
12 US Snstve Sup Sec	1.3%
13 US Commun Svc Capped	1.1%
14 US Technology	0.6%

Bond Indices	1Week
1 US TIPS TR	0.7%
2 US Inter Gov Bd TR Bond	0.7%
3 US Inter Corp Bd TR Bond	0.6%
4 US Lng Gov Bd TR Bond	0.6%
5 US Gov Bd TR Bond	0.5%
6 US Lng Core Bd TR Bond	0.5%
7 US Inter Core Bd TR Bond	0.5%
8 US Corp Bd TR Bond	0.5%
9 US Core Bd TR Bond	0.5%
10 US Lng Corp Bd TR Bond	0.4%
11 US Shrt Gov Bd TR Bond	0.4%
12 Mortgage TR Bond	0.4%
13 ICE BofAML US High Yield TR	0.3%

International Markets	1Week
1 MSCI Europe NR USD	2.0%
2 MSCI World ex USA NR USD	1.6%
3 MSCI Pacific NR USD	0.9%
4 MSCI EM PR USD	0.8%
5 MSCI EM Latin America PR USD	0.8%
6 FTSE 100 TR GBP	0.7%
7 Euronext Paris CAC 40 NR EUR	0.7%
8 MSCI Europe PR LCL	0.6%
9 FSE DAX TR EUR	0.4%
10 MSCI EM PR LCL	0.4%
11 MSCI World Ex USA PR LCL	0.3%
12 MSCI Pacific Ex Japan PR LCL	0.0%
13 MSCI Pacific PR LCL	-0.3%
14 MSCI Japan PR LCL	-0.6%

Source: Morningstar.com

double-dip). Now we are not suggesting the US is headed for a similar type roller coaster in rates, inflation or recession prospects – but simply the abrupt and predisposed change in policy direction has unintended consequences, and if the Fed is cutting rates – it is for a reason. **We'd love to hear your thoughts.**