Weekly Capital Market Comments

Friday, January 25, 2019

NORTHEAST | SEQUOIA
PRIVATE CLIENT GROUP

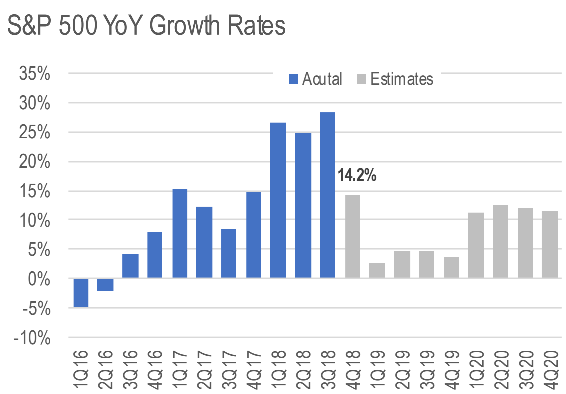
How Slow Can You Go?

Weekly Review

Market momentum was generally mixed for the week; after a strong start, risk-off sentiment began to set in mid-week as the IMF cut its global growth forecast for 2019. For the week (Thursday-Thursday) US equity markets were mixed to flat, as were many fixed-income markets/indices. Utilities outperformed from a Sector perspective this week, higher by almost 2%, while Basic Materials and Energy names lagged, each down about 1%. From a style perspective, Mid-Cap names outperformed this week, up about 1%, while Large-Cap Growth lagged.

4Q18 Earnings Just Getting Started…So Far So Good

Fourth-quarter earnings season is heating up, and while many S&P Financials have reported (75% reporting with almost 70% beating expectations), we continue to await results from Consumer Discretionary names to further gage the health of the consumer, before tax-refunds may skew results. Overall, fourth quarter earnings are expected to rise by 14.2% YoY from Q417. And through Thursday, roughly 112 S&P companies have reported, with 72% beating expectations, 4% meeting and 24% missing 4Q18 growth projections. While the current "beat ratio" is above the long-term average of 64%, it is below the trailing 4-quarter average of roughly 78%; clearly, growth is slowing and this should surprise only a very few.



Source: I/B/E/S data from Refinitiv

The bigger question in our opinion, is when (if) will earnings be further impacted by the government shutdown, gyrating geopolitical headwinds, and/or tightening financial conditions. As a result, we continue to field questions from clients regarding the slowing economy, a potential recession, and their overall exposure to the equity markets. We continue to maintain that while the US may very well be in a recession in the next 12-18 months (research shows that since 1986, a recession occurs within 5 months of an equity market top; September 20, 2018), it will be an earnings recession, and not necessarily a balance sheet recession. The key distinction here is that a balance sheet recession is driven by burgeoning debt, asset bubbles, and balance sheet impairments (basically 2007). And while we main heretics of the perennial Wall-Street "soft landing" myth, we do believe any stall in GDP growth will begin to resuscitate into 2020. To this extent, the S&P has already corrected by almost 20% and has since recovered by about 12%. Given the tenure of the current economic expansion and bull market, we contend equity markets will be range-bound over the next 12 months. As such, investors should tactically buy into dips and be pragmatic about any significant rebounds. **We'd love to hear your thoughts.**

	Domestic Indices	YTD
1	Russell 2000 TR	8.6%
2	S&P MidCap 400	8.2%
3	NASDAQ Composite PR	6.6%
4	NYSE Composite PR	5.8%
5	S&P 500 TR	5.5%
6	DJ Industrial Average TR	5.4%
7	ICE BofAML US High Yield TR	3.7%
8	USTREAS T-Bill Auction Ave 3	2.0%
9	BBgBarc US Agg Bond TR	0.4%
10	BBgBarc Municipal TR USD	0.4%
11	BBgBarc US MBS TR	0.2%
12	BBgBarc US Government TR	0.0%
13	US Inter Gov Bd TR Bond	0.0%

	Style Stratificiation	YTD
1	US Small Cap	9.3%
2	US Mid Growth	8.2%
3	US Mid Core	7.8%
4	US Mid Cap	7.8%
5	US Mid Val	7.3%
6	US Growth	7.2%
7	US Large Growth	6.1%
8	US Market	6.0%
9	US Core	5.2%
10	US Large Cap	5.1%
11	US Large Val	5.0%
12	US Large Core	4.0%

	Sector Stratificiation	YTD
1	US Energy Capped	9.1%
2	US Financial Services	8.1%
3	US Industrials	7.6%
4	US Consumr Cyclcl	7.5%
5	US Commun Svc Capped	7.4%
6	US Cyclcl Sup Sec	7.4%
7	US Snstve Sup Sec	6.5%
8	US Real Estate	6.3%
9	US Technology	5.6%
10	US Basic Materials	3.8%
11	US Healthcare	3.5%
12	US Dfnsve Sup Sec	3.1%
13	US Consumr Dfnsve	2.5%
14	US Utilities	2.4%

	Bond Indices	YTD
1	ICE BofAML US High Yield TR	3.7%
2	US Lng Corp Bd TR Bond	2.1%
3	US Corp Bd TR Bond	1.4%
4	US Inter Corp Bd TR Bond	1.3%
5	US Lng Core Bd TR Bond	1.0%
6	US Core Bd TR Bond	0.4%
7	BBgBarc Municipal TR USD	0.4%
8	US TIPS TR	0.3%
9	US Inter Core Bd TR Bond	0.3%
10	Mortgage TR Bond	0.2%
11	US Shrt Gov Bd TR Bond	0.0%
12	US Gov Bd TR Bond	0.0%
13	US Inter Gov Bd TR Bond	0.0%
14	US Lng Gov Bd TR Bond	-0.1%
	USTREAS T-Bill Auction Ave 3	2.0%
	USTREAS T-Bill Cnst Mat Rate 10	0.3%

	International Markets	YTD
1	MSCI EM Latin America PR USD	12.1%
2	MSCI EM PR USD	5.6%
3	FSE DAX TR EUR	5.4%
4	MSCI EM PR LCL	5.0%
5	MSCI World ex USA NR USD	4.9%
6	MSCI World Ex USA PR LCL	4.5%
7	MSCI Pacific NR USD	4.5%
8	MSCI Europe NR USD	4.4%
9	SSE Composite PR CNY	4.3%
10	MSCI Europe PR LCL	4.3%
11	MSCI Japan PR LCL	4.1%
12	MSCI Pacific Ex Japan PR LCL	4.1%
13	MSCI Pacific PR LCL	4.1%
14	Nikkei 225 Average PR JPY	3.8%

Source: Morningstar.com