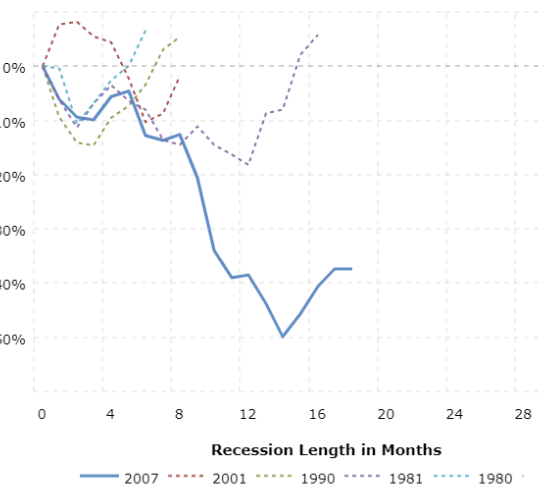
Weekly Capital Market Comments

Friday, January 4, 2019

NORTHEAST PRIVATE CLIENT GROUP

New Year's Resolutions Already Broken

Clearly, the capital markets couldn't follow through with a resolution for lower volatility for 2019. For the week, the S&P 500 returned -1.5% (Thursday through Thursday) on a total return basis. Among the major US equity indices, the Russell 2000 posted the best result, which was flat, whilst the NASDAQ and the DJ Industrials lagged, returning -1.8% and -1.9%, respectively. From a style perspective, US Small Cap posted a reversal of fortune (worst style over last 12 months), but still couldn't break even. By sectors, Communication Services, Energy and Cyclicals posted positive results, while Technology was down almost 4% driven by significant losses by Apple. Finally, in line with our expectations, the 10yr TSY continued to find a bid driven by the risk-off sentiment borne from continued geopolitical risks, a continued government shut-down, as well as external global growth pressures, ending the week yielding 2.6%, or down 5bps from one-week earlier.



Following through from last week's comments, we continue to contend that the recent market retracement continues to reveal opportunities for investors. But at the same time, for those with longer-term objectives, the recent sell-off should not hasten a move to cash; for 1) selling now simply locks in losses, and 2) we believe a dislocation between market valuations, and economic fundamentals exist. Even if there would be no earnings growth in 2019 (similar to the '14 and '15 period), the S&P would still be trading at 15x on a forward basis, versus the average dating back to '07 of a little less than 16x and about 17x dating back to '97.

As we pointed out last week, the US economy is decelerating, but is not in outright decline. And although we believe a recession may be as close as 12-18 months out, we believe the next down-term will not be as severe as '07. In the exhibit above, which we sourced from MacroTrends.com, we illustrate average retracement in the S&P 500 from the peak of economic cycle to the trough, excluding the '07 recession, is about -13.5%; and when including the Great Recession, the average retracement is about -21%. Since reaching an all-time high in of ~2,930 in late September '18, the S&P is now down by almost 17%. So from here, we believe the S&P could test the December lows, implying another 5-7% down, but baring any significant negative headline risk (impeachment, terrorist attack, Italian default) we believe there are a fair number of catalysts to near-term upside, including no further rate hikes, a trade-agreement with China or an agreement to re-open the government. If you have any questions, please give us a call – we would love to hear from you. (Chris Pike, CFA 1/04/19)

	Domestic Indices	1Week
1	US Inter Gov Bd TR Bond	1.3%
2	BBgBarc US Government TR	1.1%
3	BBgBarc US Agg Bond TR	1.0%
4	BBgBarc US MBS TR	0.9%
5	ICE BofAML US High Yield TR	0.7%
6	BBgBarc Municipal TR USD	0.5%
7	Russell 2000 TR	0.0%
8	NYSE Composite PR	-0.8%
9	S&P MidCap 400	-0.9%
10	S&P 500 TR	-1.6%
11	NASDAQ Composite PR	-1.8%
12	DJ Industrial Average TR	-1.9%

	Style Stratification	1Week
1	US Small Core	-0.2%
2	US Small Cap	-0.4%
3	US Mid Val	-0.5%
4	US Large Val	-0.6%
5	US Mid Core	-1.3%
6	US Mid Cap	-1.3%
7	US Large Cap	-1.6%
8	US Core	-1.8%
9	US Small Growth	-1.9%
10	US Growth	-2.1%
11	US Large Growth	-2.1%
12	US Large Core	-2.1%
13	US Mid Growth	-2.2%

	Sector Stratification	1Week
1	US Commun Svc Capped	1.9%
2	US Energy Capped	0.7%
3	US Consumr Cyclcl	0.1%
4	US Cyclcl Sup Sec	-0.5%
5	US Consumr Dfnsve	-0.6%
6	US Financial Services	-0.6%
7	US Real Estate	-1.3%
8	US Utilities	-1.4%
9	US Dfnsve Sup Sec	-1.5%
10	US Basic Materials	-1.7%
11	US Industrials	-1.9%
12	US Healthcare	-2.1%
13	US Snstve Sup Sec	-2.3%
14	US Technology	-3.9%

	Bond Indexes	1Week
1	US Lng Gov Bd TR Bond	2.5%
2	US Lng Core Bd TR Bond	2.1%
3	US Lng Corp Bd TR Bond	1.6%
4	US Inter Gov Bd TR Bond	1.3%
5	US Gov Bd TR Bond	1.3%
6	US Core Bd TR Bond	1.1%
7	US Corp Bd TR Bond	1.1%
8	US TIPS TR	1.1%
9	US Inter Corp Bd TR Bond	1.0%
10	US Inter Core Bd TR Bond	1.0%
11	Mortgage TR Bond	0.9%
12	ICE BofAML US High Yield TR	0.7%
13	BBgBarc Municipal TR USD	0.5%
14	US Shrt Gov Bd TR Bond	0.5%

	International Markets	1Week
1	FTSE 100 TR GBP	1.7%
2	MSCI Pacific NR USD	1.5%
3	MSCI Europe PR LCL	1.4%
4	MSCI World ex USA NR USD	1.3%
5	MSCI Europe NR USD	1.3%
6	SSE Composite PR CNY	0.8%
7	MSCI World Ex USA PR LCL	0.6%
8	FSE DAX TR EUR	0.3%
9	Euronext Paris CAC 40 NR EUR	0.3%
10	MSCI Pacific Ex Japan PR LCL	-0.2%
11	MSCI Pacific PR LCL	-0.4%

Source: Morningstar.com