Weekly Capital Market Comments

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I Get By With A Little Help From My Friends

Weekly Review

It was a mixed week for equity and fixed-income capital markets, with wider than usual return dispersion. But the S&P and NASDAQ both rose once again, each finishing the week higher by 0.6%, and now stand up by over 16% and 21% YTD, respectively. Bonds were mostly down for the week, with the exception – of you guessed it – High Yield, which was higher by 20bps over the last five trading days and stands higher by almost 9% YTD. Large-Cap styles were on top this week, followed by Core and Value styles. Financial Services was the top performing sector this week, higher by 2.3%, followed by Industrials, and Consumer Cyclicals, higher by 2.2% and 1.8%, respectively. Real Estate, Defensives and Healthcare lagged, down 2.3%, 2.8% and 5.4%, respectively. The creeping 10yr was the culprit holding REITs back, while several townhalls for a growing field of Presidential candidates simply hammered home constituent's desire for universal healthcare – hence, many managed care and healthcare names were hit. The S&P is currently trading at roughly 16.8x NTM (next 12 months) and remains somewhat overvalued – in our view. While at the same time, credit spread continued to narrow this week, despite the 10yr moving higher by 5bps, and now stands at 2.57%, compared to a low of 2.39% in late March. Both WTI and Brent ended the week relatively unchanged, while Gold was down about 1.4% at $1,276. The US$ was higher by about 50bps for the week, closing (Thursday) at $97.47.

1Q19 Earnings Helping Support Stock Prices

So far through 1Q19 earnings season, results have been better than expected, which has helped support equities. The S&P 500 is now roughly 3% below the all-time high set back in September 2018 and has recovered almost 24% from the Christmas Eve low of 2,351. Going into 1Q19 earnings season, the consensus estimate for year-over-year (YoY) earnings growth for the S&P 500 was negative 2.3%. However, after the first few weeks of 1Q earnings, the S&P is posting YoY growth of about 5%. We note however, only 10% of the S&P has reported 1Q19 earnings thus far, so there is still some way to go. Still, the upside in earnings results is welcomed with open arms to a political and geopolitical landscape that remains fragile – to say the least. However, over the last week there have been several other newsworthy headlines, that have also help equity prices, including:

- China's 1Q GDP prints at 6.4%, better than expected, while industrial production increased by 8.5% YoY.
- The White House announced "other" candidates are being considered to fill the empty Federal Reserve Governor vacancies.
- Treasury Secretary Mnuchin suggested that US-China trade talks nearing final round.
- Chinese Central Bank's quarterly monetary policy committee statement said it would strengthen coordination between monetary, fiscal and other policies.
- ZEW indicator of German economic sentiment increased to +3.1 in April from -3.6 in March, above +1.9 consensus and first positive reading since March last year.
- March UK retail sales at +1.1% MoM vs consensus of (0.3%), while YoY retail sales are up 6.7% vs a consensus estimate of 4.6%.
- Unemployment claims printed at 197k last week and only 192k this week.
- UK employment was higher by 1.4% in February, helping offset BREXIT concerns.

So for market bulls, there remains many reasons to remain upbeat. However, we continue to remain cautious regarding overall market conditions, and continue to recommend clients consider to de-risk portfolios. We continue to maintain that if markets and economies were able to sustain themselves, the need for coordinated central bank accommodation would not be needed. In addition, the S&P 500 is currently trading at 16.8x forward earnings, compared to a historical average of 15.3x dating back through 2001, and 16.4x dating back through 1997. While we concur with popular thought that cycles don't simply die of old age, we continue to witness economic data rolling and/or plateauing. So while a downturn may not be imminent, we continue believe the conversation should one of "when" not "if." **We'd love to hear your thoughts**

	Domestic Indices	1Week
1	DJ Industrial Average TR	1.6%
2	NASDAQ Composite PR	0.6%
3	S&P 500 TR	0.6%
4	NYSE Composite PR	0.3%
5	ICE BofAML US High Yield TR	0.2%
6	S&P MidCap 400	0.2%
7	BBgBarc Municipal TR USD	0.0%
8	BBgBarc US Agg Bond TR	-0.1%
9	BBgBarc US Government TR	-0.2%
10	US Inter Gov Bd TR Bond	-0.2%
11	BBgBarc US MBS TR	-0.2%
12	Russell 2000 TR	-0.8%

	Style Stratificiation	1Week
1	US Large Core	1.7%
2	US Core	1.3%
3	US Large Cap	0.7%
4	US Large Val	0.5%
5	US Mid Core	0.5%
6	Style	0.0%
7	Broad Market	0.0%
8	US Mid Cap	-0.2%
9	US Large Growth	-0.3%
10	US Growth	-0.4%
11	US Mid Growth	-1.1%

	Sector Stratificiation	1Week
1	US Financial Services	2.3%
2	US Industrials	2.2%
3	US Consumr Cyclcl	1.8%
4	US Technology	1.6%
5	US Cyclcl Sup Sec	1.5%
6	US Snstve Sup Sec	1.4%
7	US Consumr Dfnsve	1.3%
8	US Basic Materials	0.9%
9	US Energy Capped	-0.2%
10	US Commun Svc Capped	-0.3%
11	US Utilities	-1.0%
12	US Real Estate	-2.3%
13	US Dfnsve Sup Sec	-2.8%
14	US Healthcare	-5.4%

	Bond Indices	1Week
1	ICE BofAML US High Yield TR	0.2%
2	US Shrt Gov Bd TR Bond	0.0%
3	US Lng Corp Bd TR Bond	0.0%
4	US Corp Bd TR Bond	0.0%
5	BBgBarc Municipal TR USD	0.0%
6	US TIPS TR	-0.1%
7	US Inter Corp Bd TR Bond	-0.1%
8	US Core Bd TR Bond	-0.1%
9	US Gov Bd TR Bond	-0.2%
10	US Inter Gov Bd TR Bond	-0.2%
11	US Lng Core Bd TR Bond	-0.2%
12	US Inter Core Bd TR Bond	-0.2%
13	Mortgage TR Bond	-0.2%
14	US Lng Gov Bd TR Bond	-0.4%

	International Markets	1Week
1	SSE Composite PR CNY	2.6%
2	FSE DAX TR EUR	2.4%
3	Euronext Paris CAC 40 NR EUR	1.8%
4	Nikkei 225 Average PR JPY	1.7%
5	MSCI Europe PR LCL	1.1%
6	MSCI World Ex USA PR LCL	1.0%
7	MSCI Europe NR USD	0.8%
8	MSCI World ex USA NR USD	0.7%
9	MSCI Japan PR LCL	0.7%
10	MSCI EM PR LCL	0.7%
11	MSCI Pacific PR LCL	0.6%
12	FTSE 100 TR GBP	0.6%
13	MSCI Pacific Ex Japan PR LCL	0.5%
14	MSCI EM PR USD	0.5%

Source: Morningstar.com