

Whistling Past the Grave Yard

Weekly Review

Another risk-on week (Thursday-Thursday), as equities roared ahead, whilst leaving almost every bond index in the red, with the expectation of HY. The S&P finished the week higher by 2.3%, and now stands up 15.5% YTD. At the same time, the tech-heavy NASDAQ was up almost 3% this week and is now higher by 19% YTD. Bonds continue to lag, except for HY. Long-duration lagged this week, with long-term governments and corporates down roughly between 0.6-0.7%. Growth and Core styles outperformed, higher by 3% or better, while Value lagged, higher by a little less than 2%. Basic Materials was the week's Sector outperformer, higher by 5%, driven by steep gains in Dow Chemical (higher by 17%, as two major investment banks rolled out coverage with constructive ratings), while Utilities and Consumer Defensive names lagged, down 1.4% and 0.5%, respectively. The S&P is currently trading at roughly 16.7x NTM (next 12 month) earnings, compared to a historical average since '01 of 15.3x and 16.4x dating back through '97. The yield curve steepened for the week, and credit-spreads generally tightened as the 10yr backed up 15bps, ending the week at 2.5%. Oil (WTI) was higher by 5%, while Gold was off 3.4%. Finally, the US\$ continues to grind higher, up by 0.5% for the week.

The S&P 500 Rally – *Living on a Prayer*

The dramatic shift (not really a pivot anymore is it?) in the Fed's monetary policy, along with muted inflation prospects, a solid labor market, and maybe most of all – the perception that China (economy/capital market) has bottomed – has helped support multiples, reduce recession concerns and support a rally in risk assets across the globe. And despite continued expectations for decelerating earnings expectations here in the US, and a fair amount of geopolitical uncertainty and international economic headwinds, we have seen credit spreads narrow, high-yield bonds rally, a rebound in emerging markets and a bounce in commodities. *So what gives?*

Well first off, capital markets continue price in continued support from central banks, most notably the US Federal Reserve, the European Central Bank (ECB) and The People's Bank of China (PBOC). The Fed has shown its hand, tilting uber dovish whilst even driving up expectations for a potential rate cut later this year. Then you have the ECB, which earlier in March also walked back any hint of rate hikes through at least 2019, and in similar fashion to here in the US, announced further support for unconventional monetary policy initiatives, with additional long-term funding facilities for its banks. Add to this, when you compound the uncertainty associated with BREXIT, it is hard to imagine that the ECB (and/or the Bank of England) will not anytime soon look to tighten policy rates. Then you have the PBOC, which is throwing all but the kitchen sink at the domestic economy, in an attempt to resuscitate domestic manufacturing and growth (still driving toward "Made In China 2025"), by reducing reserve requirements, cutting taxes, and even promising not to devalue its currency.

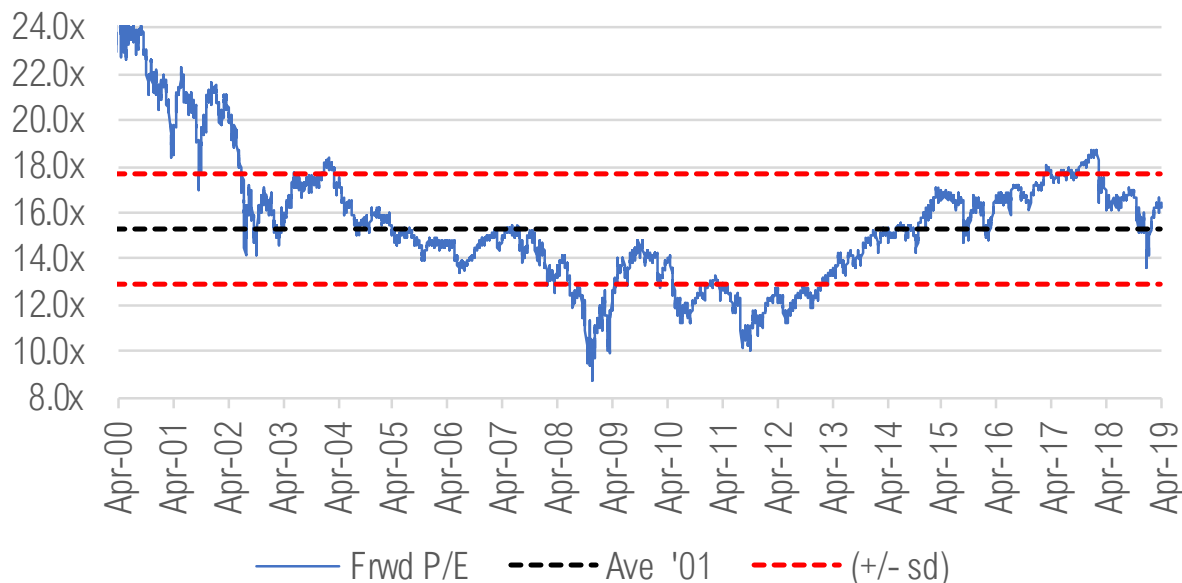
Wow – a lot is riding on these central banker's, "whatever it takes" attitude to prop up markets and economies. But from our perspective, the simple notion that the global economy needs a coordinated easing effort by the FED, ECB and PBOC – in itself, suggests that financial conditions are tightening – not loosening. We remain cautious regarding overall equity valuations and feel it appropriate to begin de-risking portfolios. Further, we believe market participants remain too complacent regarding the obvious risks out there, as the whistle past the graveyard. **We'd love to hear your thoughts.**

Domestic Indices		1Week
1	NASDAQ Composite PR	2.9%
2	DJ Industrial Average TR	2.6%
3	S&P MidCap 400	2.4%
4	S&P 500 TR	2.3%
5	Russell 2000 TR	2.1%
6	NYSE Composite PR	1.9%
7	ICE BofAML US High Yield TR	0.6%
8	BBqBarc Municipal TR USD	-0.3%
9	BBqBarc US MBS TR	-0.5%
10	BBqBarc US Agg Bond TR	-0.6%
11	US Inter Gov Bd TR Bond	-0.6%
12	BBqBarc US Government TR	-0.71%
Style Stratification		1Week
1	US Mid Core	2.9%
2	US Large Growth	2.4%
3	US Growth	2.4%
4	US Core	2.3%
5	US Mid Cap	2.3%
6	US Market	2.3%
7	US Large Cap	2.3%
8	US Large Core	2.2%
9	US Mid Val	2.1%
10	US Large Val	1.9%
11	US Mid Growth	1.9%
Sector Stratification		1Week
1	US Basic Materials	4.8%
2	US Technology	3.5%
3	US Financial Services	3.2%
4	US Industrials	3.2%
5	US Consumr Cyclcl	3.1%
6	US Cyclcl Sup Sec	3.0%
7	US Snstve Sup Sec	2.9%
8	US Commun Svc Capped	1.8%
9	US Healthcare	0.9%
10	US Real Estate	0.4%
11	US Energy Capped	0.3%
12	US Dfnsv Sup Sec	0.3%
13	US Consumr Dfnsv	-0.4%
14	US Utilities	-0.6%
Bond Indices		1Week
1	ICE BofAML US High Yield TR	0.6%
2	US Shrt Gov Bd TR Bond	-0.2%
3	BBqBarc Municipal TR USD	-0.3%
4	US TIPS TR	-0.3%
5	Mortgage TR Bond	-0.5%
6	US Inter Corp Bd TR Bond	-0.5%
7	US Corp Bd TR Bond	-0.5%
8	US Inter Core Bd TR Bond	-0.5%
9	US Core Bd TR Bond	-0.6%
10	US Inter Gov Bd TR Bond	-0.6%
11	US Gov Bd TR Bond	-0.7%
12	US Lng Corp Bd TR Bond	-0.7%
13	US Lng Core Bd TR Bond	-1.1%
14	US Lng Gov Bd TR Bond	-1.5%
International Markets		1Week
1	SSE Composite PR CNY	8.4%
2	FSE DAX TR EUR	4.9%
3	MSCI EM Latin America PR USD	4.1%
4	MSCI EM PR USD	3.4%
5	Nikkei 225 Average PR JPY	3.3%
6	Euronext Paris CAC 40 NR EUR	3.2%
7	MSCI EM PR LCL	2.9%
8	MSCI Europe NR USD	2.8%
9	MSCI Europe PR LCL	2.8%
10	MSCI World Ex USA PR LCL	2.5%
11	FTSE 100 TR GBP	2.5%
12	MSCI World ex USA NR USD	2.4%
13	MSCI Japan PR LCL	2.4%
14	MSCI Pacific PR LCL	2.4%

Source: Morningstar.com

Exhibit 1: Forward P/E Only 1x Below +1 Standard Deviation Wide

Forward P/E Since 2001



Source: NEPCG and FactSet

Exhibit 2: Markets at A Glance

Index	Last	5DA	Government Bonds	Yield	Spread	Currencies	Last	5DA
S&P 500 (TR)	2,879	2.3%	US 10Yr	2.51%	--	EUR/USD	\$ 1.12	(0.05%)
NASDAQ	7,892	2.9%	German 10Yr	-0.01%	-2.51%	USD/JPY	\$ 111.72	1.04%
Russell 1000	1,595	2.3%	UK 10Yr	1.08%	-1.42%	GBP/USD	\$ 1.31	(0.03%)
DJ Industrials	26,385	2.6%	Japan 10Yr	-0.05%	-2.56%	US\$ Spot	\$ 97.29	0.09%
Russell 2000 (TR)	7,842	2.1%	US 2-Year	2.33%	-0.18%	Futures	Last	5DA
S&P Global 1200	2,387	2.3%	Credit Bonds	Yield	Spread	Brent	\$ 69.40	2.33%
Euro STOXX	378	3.8%	Baa	4.08%	1.57%	WTI	\$ 62.12	4.77%
Japan Nikkei 225	21,808	2.6%	Ba to B	5.84%	3.33%	Gold	\$ 1,293	0.24%
Germany DAX (TR)	11,978	4.8%	High Yield	6.67%	4.17%	Silver	\$ 15	0.75%

Source: NEPCG and FactSet. Charts are for illustrative purposes and are not intended to suggest a particular course of action or represent the performance of any particular financial product or security. Past performance is not a guarantee of future results.

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