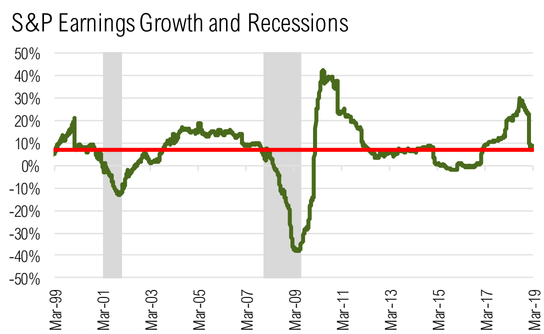
A Seemingly Uneventful Eventful Week

Weekly Review

Equities once again ended the week (Thursday-Thursday) in the green despite mixed economic data and a failed US/North Korea Summit. The S&P 500 was higher by 0.4% for the week and is now higher by 11.5% YTD. The Russell 2000 (small caps) took a pause this week, ending flat – but still leads the equity indices YTD, higher by almost 18%. Growth was in vogue this week, higher by 0.9%-2.0%, while Mid-Cap Value was in the red. Leading sectors were Technology and Industrials, while Real Estate, Consumer Defensive and Energy lagged. Bonds were mostly flat over the last five trading days, with HY continuing to outperform.

GDP Surprises Higher…Now What?

The final print for 4Q18 GDP was released on Wednesday, surprising to the upside at 2.6%, versus the consensus estimate of roughly 2.2%. This positive surprise helped offset some negative data released earlier in the week. In addition, financial conditions – in broad terms – have generally loosened since the steep sell-off last December, driven mostly in our opinion, by an overly dovish Federal Reserve and the illusion that a Sino/US trade deal has teeth. As a result, the S&P 500 is higher by roughly 11.5% YTD and has recovered more than 18% since Christmas Eve 2018. All of this now has the "talking heads" suggesting that maybe the economy isn't as bad as previously thought, and together with other factors (low inflation, relatively low interest rates, synchronized global central bank easing) stands to help support higher equity values, especially here in the US. We continue to approach this premise with caution. First, despite the seeming positive economic surprise provided by the 4Q18 GDP print, the S&P didn't respond as if it was indeed a positive affirmation for growth. Now maybe this price action (or lack thereof) was a culmination of Cohen's testimony in concert with an abrupt and unsuccessful end to the US/North Korea Summit. But as we previously suggested, for US equities – in general terms – to materially increase from here, either earnings need move significantly higher (meaning additional economic growth/corporate profits), or equity multiples need to expand. But considering we are currently well into longest bull-market since 1929 and come July '19 (if we make that far) the longest economic expansion since 1945, we find little solace that recent economic data trends can support the case for higher equities. Earnings are coming in; there can be no dispute here. And while not moving negative, according to I/B/E/S, earnings per share (EPS) growth for the S&P 500 is now expected to be only 4.0% in 2019. This is down from expectations of 7.3% on January 1, 2019 and 10.2% back on October 1, 2018. Further, in the exhibit above, we illustrate the rather steep year-over-year decline in forward four-quarter earnings growth dating back through 1999. What we found interesting, is that in two of the three previous instances when YoY EPS growth trended back to its long-term average (roughly 7-8%), we soon thereafter entered a recession. Now, we are not sounding the recession alarm just yet but rather continue to suggest a more pragmatic asset allocation for new capital. There remain sectors/styles and allocations that still provide investors an efficient risk/return frame work. We continue to like Value and Defensives within equities. And within fixed-income, we recommend and utilizing preferred equities as corporate bond surrogates, barbelled against short-duration municipals. **Give us a call to discuss – we'd love to hear your thoughts.**



	Domestic Indices	1Week
1	NASDAQ Composite PR	1.0%
2	ICE BofAML US High Yield TR	0.5%
3	S&P 500 TR	0.4%
4	DJ Industrial Average TR	0.3%
5	BBgBarc Municipal TR USD	0.2%
6	NYSE Composite PR	0.2%
7	Russell 2000 TR	0.0%
8	BBgBarc US Agg Bond TR	0.0%
9	US Inter Gov Bd TR Bond	0.0%
10	BBgBarc US MBS TR	0.0%
11	BBgBarc US Government TR	-0.1%
12	S&P MidCap 400	-0.4%

	Style Stratification	1Week
1	US Mid Growth	2.0%
2	US Growth	1.2%
3	US Large Growth	0.9%
4	US Mid Cap	0.5%
5	US Large Cap	0.5%
6	US Market	0.5%
7	US Large Core	0.4%
8	US Core	0.2%
9	US Large Val	0.1%
10	US Mid Core	-0.1%
11	US Mid Val	-0.5%

	Sector Stratification	1Week
1	US Technology	1.4%
2	US Snstve Sup Sec	0.9%
3	US Industrials	0.7%
4	US Commun Svc Capped	0.6%
5	US Financial Services	0.5%
6	US Utilities	0.4%
7	US Healthcare	0.4%
8	US Consumr Cyclcl	0.2%
9	US Cyclcl Sup Sec	0.2%
10	US Dfnsve Sup Sec	0.1%
11	US Real Estate	-0.3%
12	US Consumr Dfnsve	-0.4%
13	US Energy Capped	-0.7%
14	US Basic Materials	-0.8%

	Bond Indices	1Week
1	ICE BofAML US High Yield TR	0.5%
2	US Inter Corp Bd TR Bond	0.3%
3	BBgBarc Municipal TR USD	0.2%
4	US Corp Bd TR Bond	0.2%
5	US Shrt Gov Bd TR Bond	0.1%
6	US Lng Corp Bd TR Bond	0.1%
7	US Inter Core Bd TR Bond	0.0%
8	US Inter Gov Bd TR Bond	0.0%
9	US Core Bd TR Bond	0.0%
10	US TIPS TR	0.0%
11	Mortgage TR Bond	0.0%
12	US Gov Bd TR Bond	-0.1%
13	US Lng Core Bd TR Bond	-0.2%
14	US Lng Gov Bd TR Bond	-0.5%

	International Markets	1Week
1	SSE Composite PR CNY	6.8%
2	MSCI Europe NR USD	1.0%
3	Euronext Paris CAC 40 NR EUR	0.9%
4	Nikkei 225 Average PR JPY	0.8%
5	FSE DAX TR EUR	0.8%
6	MSCI World ex USA NR USD	0.4%
7	MSCI Pacific Ex Japan PR LCL	0.1%
8	MSCI Europe PR LCL	0.1%
9	MSCI EM PR USD	0.0%
10	MSCI EM PR LCL	0.0%
11	MSCI World Ex USA PR LCL	0.0%
12	MSCI Pacific PR LCL	-0.3%
13	MSCI Japan PR LCL	-0.5%
14	MSCI Pacific NR USD	-0.5%

Source: Morningstar.com