Weekly Capital Market Comments

May 3, 2019

NORTHEAST | SEQUOIA
PRIVATE CLIENT GROUP

Listening To A Sphinx

Weekly Review

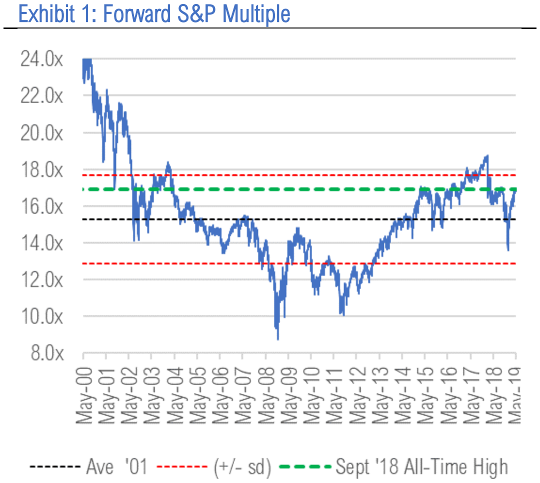
It was a mixed week for the capital markets, driven primarily by disjointed messaging from the Federal Reserve as well as increased speculation regarding the future vector of the economy. The S&P 500 finished the week down 0.3%, but still stands higher YTD by over 17%. The NASDAQ was off 0.6% and is still up over 21% for the year. Bonds were mostly for bid this week, with TIPs the only fixed-income sector in the red (down 0.1%); while duration outperformed. From a Style perspective, Core and Value were the best performers, while Growth and Large Cap lagged. Healthcare was the best performing sector, higher by 1.3%, followed by Financial Services and Defensive names, higher by 1.2% and 1.0%, respectively. Energy and Technology were the bottom performing sectors, down 5.4% and 1.6%, respectively; as both sectors are facing investor backlash following softer than expected1Q19 earnings. The 10yr yield backed by about 6bps in early trading, but currently stands unchanged for the week at 2.53%. Both WTI and Brent were lower for the week, while Gold and Silver was also down, off 0.6% and 1.4%, respectively. The US$ lost ground for the week, but was for bid following this morning's better than expected jobs number of 263k, versus the consensus expectation of 183k

We Are Still Cautious, Despite Today's Jobs Number

This week, the FOMC held its fourth of nine meetings for 2019, followed by the now typical post-mortem press conference. Simply put, we are once again perplexed as to the messaging from Chair Powell and the FMOC. To us, it is Groundhog Day all over again; reminiscent of episodic missteps starting several months ago that started with "we are a long way from neutral" to "we are just below neutral" to the now infamous Powell Pivot – which helped propel the S&P back up over 24% from its Christmas Eve '18 lows. From our perspective, if inflation is so transitory (as he put it at least 7 times on Wednesday), then how and when will pricing power (and growth) manifest itself back into the economy? We are hopeful that solid job growth will ultimately place upward pressure on wages and ultimate corporate earnings, and look for rate hikes, not cuts. But from our perspective, inflation (personal consumption expenditures, PCE, ~the Fed's preferred measure) remains elusive both here and abroad. And although 1Q19 GDP printed 3.2% last week (vs ~2.5% consensus estimate), much of the upside was once again a function of inventory build. Meaning, there was outsized investment/production in the quarter, without consumption. At some point, inventories will be drawn down, and if there isn't enough aggregate demand to result in a re-stocking of inventories, then the economy will give back the 65-75bps of GDP growth at some point in the future. As a result, GDPNow, is now forecasting 2Q19 GDP of only 1.2% (as of 5/2/19), compared to the blue-chip consensus estimate of over 2.5%. However, we remind investors that this estimate is a dynamic measure, and following today's positive surprise in April's BLS report, will may see an upward revision over the next few days.

But all is not rosy; over the last five trading days we have witnessed a softer PMI print, slowing home sales, elevated initial claims and lower vehicle sales. In fact, initial claims have bounced off a historical low of 193k mid-month, and now printed 230k for the last two weeks. It will be interesting to see how next month's job report prints, as the BLS typically polls participants mid-month. So, you guessed it, we remain cautious regarding overall equity market valuations, and believe any significant update from here will be difficult to achieve. The S&P is currently trading at 17x next-12-month (NTM) earnings, a resistance level that has been difficult to breach so late in the cycle (see green dash in Exhibit 1), without the sugar rush ushered in by the Trump Tax Cuts and Jobs Act. And although 1Q19 S&P earnings are better than feared thus far, and there is talk of an infrastructure initiative, we are more concerned with limiting downside than maximizing upside at this point in the cycle.

Exhibit 1: Forward S&P Multiple



Source: FactSet and NEPCG

We'd love to hear your thoughts

Domestic Indices		1Week
1	Russell 2000 TR	0.5%
2	BBgBarc Municipal TR USD	0.3%
3	NYSE Composite PR	0.1%
4	US Inter Gov Bd TR Bond	0.1%
5	BBgBarc US MBS TR	0.1%
6	ICE BofAML US High Yield TR	0.0%
7	BBgBarc US Government TR	0.0%
8	BBgBarc US Agg Bond TR	0.0%
9	S&P MidCap 400	-0.1%
10	S&P 500 TR	-0.3%
11	DJ Industrial Average TR	-0.6%
12	NASDAQ Composite PR	-0.6%

Style Stratificiation		1Week
1	US Mid Core	0.4%
2	US Core	0.4%
3	US Large Core	0.4%
4	US Large Val	0.2%
5	US Mid Growth	0.1%
6	US Mid Cap	0.1%
7	US Market	-0.2%
8	US Mid Val	-0.2%
9	US Large Cap	-0.3%
10	US Growth	-0.9%
11	US Large Growth	-1.1%

Sector Stratificiation		1Week
1	US Healthcare	1.3%
2	US Financial Services	1.2%
3	US Dfnsve Sup Sec	1.0%
4	US Commun Svc Capped	0.9%
5	US Real Estate	0.9%
6	US Consumr Dfnsve	0.8%
7	US Industrials	0.5%
8	US Cyclcl Sup Sec	0.4%
9	US Utilities	-0.1%
10	US Consumr Cyclcl	-0.4%
11	US Basic Materials	-0.9%
12	US Snstve Sup Sec	-1.3%
13	US Technology	-1.6%
14	US Energy Capped	-5.4%

Bond Indices		1Week
1	US Lng Gov Bd TR Bond	0.4%
2	US Lng Corp Bd TR Bond	0.3%
3	US Lng Core Bd TR Bond	0.3%
4	BBgBarc Municipal TR USD	0.3%
5	US Corp Bd TR Bond	0.2%
6	US Core Bd TR Bond	0.2%
7	Mortgage TR Bond	0.2%
8	US Gov Bd TR Bond	0.2%
9	US Inter Corp Bd TR Bond	0.1%
10	US Inter Core Bd TR Bond	0.1%
11	US Inter Gov Bd TR Bond	0.1%
12	US Shrt Gov Bd TR Bond	0.1%
13	ICE BofAML US High Yield TR	0.0%
14	US TIPS TR	-0.1%

International Markets		1Week
1	FSE DAX TR EUR	0.5%
2	MSCI Europe NR USD	0.3%
3	MSCI EM PR LCL	0.3%
4	MSCI Pacific Ex Japan PR LCL	0.3%
5	Nikkei 225 Average PR JPY	0.3%
6	MSCI EM PR USD	0.2%
7	MSCI World ex USA NR USD	0.1%
8	MSCI Pacific PR LCL	0.1%
9	MSCI Pacific NR USD	0.0%
10	Euronext Paris CAC 40 NR EUR	0.0%
11	MSCI Japan PR LCL	0.0%
12	MSCI World Ex USA PR LCL	-0.3%
13	MSCI Europe PR LCL	-0.4%
14	FTSE 100 TR GBP	-1.0%

Source: Morningstar.com