Weekly Capital Market Comments

July 3, 2019

NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

Surviving A Riptide

Weekly Review

US equity markets continue to find a bid in the shortened holiday week; the S&P is up about 2% over the last five trading days (Wed-Wed), while the NASDAQ is up almost 3%. Much of the weekly gains were driven by Technology names, given a weekend détente between POTUS and President Xi regarding trade. YTD, the S&P is now up almost 20%, while the NASDAQ is higher by over 22%. But correlations among asset classes were on the rise this week, as concerns outside of Technology and across the broader economy continue to bid up Treasuries. As a result, Growth Styles are leading over Value, and Long Corporates and Government are outperforming TIPs and Municipals. In addition, we observed that yield oriented Utilities and Consumer Defensives names lagged, while Real Estate was the one sector that bucked the trend. Oil (WTI) was down modestly over the last 5 days, off 2.3%, while Gold was relatively unchanged. But we continue to monitor the bid for Treasuries, as the 10yr once again dipped below 2.0%.

As we prepare for our annual pilgrimage to LBI for the family vacation, we are reminded of the various "hazards" associated with our beloved Jersey Shore. The first being riptides, or a robust and narrow stream of water which travels directly away from the shore, cutting through breaking waves and pulling swimmers out to sea. And then there are sharks – no real cautionary definition needed here. And interestingly enough, both hazards are also present in today's equity market. First, let's talk about equity riptides. From our perspective, the recent rebound since late May is similar to a robust stream that pulls investors back into the market (caused by near-term trade optimism, expectations of a Fed cut, or just some relief from the geopolitical circus), only to wash them out to sea. In our view, the recent bounce in the S&P is really a function of lower rates, versus improving growth and earnings prospects. Because as a reminder, the value of any investment (stocks, real estate, a business) is nothing more than the discounted present-value of future cash flows. So, if interest rates (the discount mechanism) fall more than even the future cash flows that are being discounted, then the present-value of the investment increases. And this is what is happening in the market; since the beginning of the year, the 10yr has fallen from 2.7% to about 2.0%, roughly 70bps, or by over 28%. At the same time, growth in 2019 operating earnings for the S&P 500 has fallen from +7.3% to +2.3%. Add to this, according to Bloomberg, the next few quarters may be even more challenged than we currently believe, with consensus estimates calling for a 2.5% decrease in 2Q19 earnings vs the year-ago period. **So just like surviving a riptide, it may be time to swim to the sides (cash) and relax.** Then you have sharks; clearly no-body wants to be Sheriff Brody , after frantically ringing the warning bell, rushing down the ladder from the shark tower and sprinting to the shore-line firing rounds into a school of bluefish, but that is exactly how we feel these days. And like Roy Scheider's character in Jaws 2, we know there is danger lurking out there for investors. While the S&P500 just set another all-time record, amid the longest bull-market rally since the Great Depression, and potentially the longest economic expansion since WWII, we continue to believe the US economy is in the declining phase of the economic life cycle, characterized by slowing employment growth, consumer and business sentiment rolling over, modest if not reversing wage growth, falling business activity, weak housing trends, virtually no inflation and dovish Fed-speak. And while we currently believe the next down-turn will be short and shallow, every point higher in the S&P, just adds to the extraordinary volatility we have experienced over the last 24 months, which is now annualized at 13.1% per year – versus the annual return of only 12.9% . **We'd love to hear your thoughts.**

We are taking next week off – look to hear back from us on July 19th.

Domestic Indices		1Week
1	NASDAQ Composite PR	2.9%
2	Russell 2000 TR	2.7%
3	S&P MidCap 400	2.4%
4	S&P 500 TR	1.9%
5	NYSE Composite PR	1.7%
6	DJ Industrial Average TR	0.9%
7	ICE BofAML US High Yield TR	0.3%
8	BBgBarc US Agg Bond TR	0.2%
9	BBgBarc US MBS TR	0.2%
10	BBgBarc Municipal TR USD	0.1%
11	BBgBarc US Government TR	0.1%
12	US Inter Gov Bd TR Bond	0.0%

Style Stratification		1Week
1	US Small Growth	3.0%
2	US Mid Growth	2.9%
3	US Growth	2.5%
4	US Large Growth	2.3%
5	US Mid Cap	2.2%
6	US Market	2.1%
7	US Large Cap	1.9%
8	US Mid Core	1.9%
9	US Mid Val	1.8%
10	US Core	1.8%
11	US Large Val	1.7%
12	US Large Core	1.7%

Sector Stratification		1Week
1	US Technology	3.4%
2	US Financial Services	3.1%
3	US Consumr Cyclcl	2.7%
4	US Cyclcl Sup Sec	2.6%
5	US Snstve Sup Sec	2.5%
6	US Industrials	1.8%
7	US Basic Materials	1.6%
8	US Commun Svc Capped	1.6%
9	US Real Estate	1.4%
10	US Healthcare	0.9%
11	US Dfnsve Sup Sec	0.5%
12	US Energy Capped	0.5%
13	US Consumr Dfnsve	0.2%
14	US Utilities	-0.6%

Bond Indices		1Week
1	US Lng Corp Bd TR Bond	1.0%
2	US Lng Core Bd TR Bond	0.7%
3	US Corp Bd TR Bond	0.6%
4	US Lng Gov Bd TR Bond	0.3%
5	US Inter Corp Bd TR Bond	0.3%
6	ICE BofAML US High Yield TR	0.3%
7	US Core Bd TR Bond	0.2%
8	Mortgage TR Bond	0.2%
9	US Inter Core Bd TR Bond	0.1%
10	BBgBarc Municipal TR USD	0.1%
11	US Gov Bd TR Bond	0.1%
12	US Inter Gov Bd TR Bond	0.0%
13	US TIPS TR	0.0%

International Markets		1Week
1	MSCI Japan PR LCL	2.9%
2	Nikkei 225 Average PR JPY	2.6%
3	FSE DAX TR EUR	2.4%
4	MSCI Pacific PR LCL	2.2%
5	FTSE 100 TR GBP	1.9%
6	MSCI EM PR USD	1.8%
7	MSCI World Ex USA PR LCL	1.8%
8	MSCI EM PR LCL	1.7%
9	MSCI Pacific NR USD	1.7%
10	MSCI Europe PR LCL	1.7%
11	SSE Composite PR CNY	1.3%
12	Euronext Paris CAC 40 NR EUR	1.1%
13	MSCI World ex USA NR USD	1.1%
14	MSCI Pacific Ex Japan PR LCL	0.9%

Source: Morningstar.com