Weekly Capital Market Comments

May 10, 2019

NORTHEAST | SEQUOIA
PRIVATE CLIENT GROUP

BFF: Best Frienemies Forver

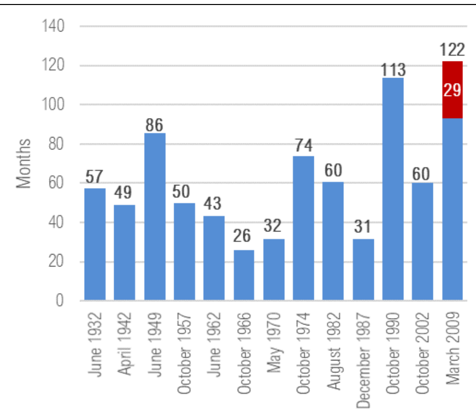
Weekly Review

Equities suffered this week, driven by trade uncertainty and escalating geopolitical risks; all major equity indices were in the red (Thursday-Thursday), lead to the downside by the Dow, off 1.7%, followed by the NASDAQ (-1.6%) and the S&P 500 (-1.5%). These indices now stand higher YTD by 12%, 19% and 15%, respectively. Bonds were for bid, with the exception of HY, which was down 40bp, but still is higher by 8.3% YTD. Interestingly, Value we the Style Stratification underperformer for the week, while Growth outperformed. Communication Services and Energy were actually up for the week, higher by 0.8% and 0.4%, respectively, while Technology and Basic Materials lagged, off by 2.9% and 2.6%, respectively. The 10yr yield ended the week down 7bp at 2.45%, while this morning yields came in an additional 2bps, now at 2.44%. Both WTI and Brent were modestly lower for the week, while Gold and Silver were for bid, higher by 1.3% and 1.2%, respectively. The US$ lost ground for the week, but given the recent China news, we expect the US$ will be for bid.

The Twitter Put

Despite seeming positive economic news last Friday, price momentum hit a brick wall this week, as concerns the US may raise tariffs on $200 billion in Chinese imports from 10% to 25% took center stage (which we now know is certain in the near-term). This despite the ongoing bromance between the POTUS and President Xi. However, enter stage left was news that North Korea continues missile testing, and that Iran may restrict certain commitments under the Iranian nuclear program (Joint Comprehensive Plan of Action). This, following the deployment of a U.S. carrier strike group/bomber task force to the Middle East. But fear-not market optimists, any further equity downside may come to a swift end (reversal) with one or two144-character digital messages. **We on the other hand, are not that optimistic, at least not in the near-term.** As we have suggested time and time again, market movements are a function of: 1) earnings growth and 2) multiple expansion. First, we have a difficult time believing that the potentially higher tariffs (higher domestic costs/inflation/reduced spending), heightened tensions in the Middle-East (potential war with Iran), uncertainty on Korean Peninsula (breakdown of nuclear disarmament talks), as well as political turbulence in Venezuela will bolster investor sentiment and support multiples. Especially, given the current forward S&P multiple of 16.4x (down from 16.9x last week) is still ~1-turn wider than the long-term average of 15.5x. Further, we need to remind investors that S&P remains in the longest bull-market since the Great Depression (not the Gundlach definition of a bull-market of course) and come June, the U.S. economy will be on equal footing with the longest economic expansion since the end of WWII. **So, from our perspective, markets are priced to perfection in the near-term.** Next is earnings; while tariffs may dent sentiment, they will also depress earnings and corporate profits in the very near-term. Intermediate to longer term, a tariff strategy could bolster domestic manufacturing, while potentially supporting the US$; thus, driving demand for U.S. goods/services and manufactured products – ultimately supporting corporate profits. But tactically speaking, the near-term risk is to the downside for U.S. equities. So, if the propensity is for flat or contracting multiples, along with the potential for negative or decelerating earnings growth, we have a hard time believing the S&P has material upside from a YTD statistic of +15.3%. Hence, we continue to recommend clients de-risk from equities to bonds or cash; more so in taxable vs. qualified accounts. Within equities, we continue to favor Value (despite recent underperformance) over Growth but remain cautious regarding healthcare (pharma/biotech). We also continue to like REITs, given their yields and potential for dividend growth. Hopefully, muni investors are finally appreciating this exposure, given the recent market volatility.

Exhibit 1: S&P 500 Bull Markets



Source: FactSet, NEPCG

We'd love to hear your thoughts

Domestic Indices		1Week
1	BBgBarc US Government TR	0.6%
2	US Inter Gov Bd TR Bond	0.5%
3	BBgBarc Municipal TR USD	0.5%
4	BBgBarc US Agg Bond TR	0.4%
5	BBgBarc US MBS TR	0.3%
6	ICE BofAML US High Yield TR	-0.4%
7	Russell 2000 TR	-0.8%
8	S&P MidCap 400	-1.3%
9	NYSE Composite PR	-1.5%
10	S&P 500 TR	-1.5%
11	NASDAQ Composite PR	-1.6%
12	DJ Industrial Average TR	-1.7%

Style Stratification		1Week
1	US Mid Growth	-0.4%
2	US Growth	-0.9%
3	US Large Growth	-1.1%
4	US Mid Cap	-1.2%
5	US Market	-1.5%
6	US Mid Val	-1.5%
7	US Large Cap	-1.5%
8	US Large Core	-1.7%
9	US Core	-1.7%
10	US Mid Core	-1.9%
11	US Large Val	-1.9%

Sector Stratification		1Week
1	US Commun Svc Capped	0.8%
2	US Energy Capped	0.4%
3	US Healthcare	-0.6%
4	US Consumr Dfnsve	-0.7%
5	US Dfnsve Sup Sec	-0.8%
6	US Real Estate	-1.2%
7	US Consumr Cyclcl	-1.2%
8	US Cyclcl Sup Sec	-1.5%
9	US Financial Services	-1.6%
10	US Utilities	-1.6%
11	US Industrials	-1.6%
12	US Snstve Sup Sec	-1.8%
13	US Technology	-2.6%
14	US Basic Materials	-2.9%

Bond Indices		1Week
1	US Lng Gov Bd TR Bond	1.1%
2	US Lng Core Bd TR Bond	0.7%
3	US Gov Bd TR Bond	0.6%
4	US Inter Gov Bd TR Bond	0.5%
5	BBgBarc Municipal TR USD	0.5%
6	US TIPS TR	0.4%
7	US Core Bd TR Bond	0.4%
8	US Inter Corp Bd TR Bond	0.4%
9	US Inter Core Bd TR Bond	0.3%
10	US Lng Corp Bd TR Bond	0.3%
11	US Corp Bd TR Bond	0.3%
12	Mortgage TR Bond	0.3%
13	US Shrt Gov Bd TR Bond	0.2%
14	ICE BofAML US High Yield TR	-0.4%

International Markets		1Week
1	FTSE 100 TR GBP	-1.8%
2	MSCI EM Latin America PR USD	-2.1%
3	MSCI Pacific NR USD	-2.3%
4	MSCI World ex USA NR USD	-2.4%
5	MSCI Pacific Ex Japan PR LCL	-2.4%
6	MSCI Europe NR USD	-2.7%
7	MSCI World Ex USA PR LCL	-3.0%
8	FSE DAX TR EUR	-3.0%
9	MSCI Europe PR LCL	-3.1%
10	MSCI Pacific PR LCL	-3.4%
11	Euronext Paris CAC 40 NR EUR	-3.8%
12	Nikkei 225 Average PR JPY	-3.8%
13	MSCI Japan PR LCL	-3.9%
14	MSCI EM PR LCL	-4.4%

Source: Morningstar.com

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