Weekly Capital Market Comments

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NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

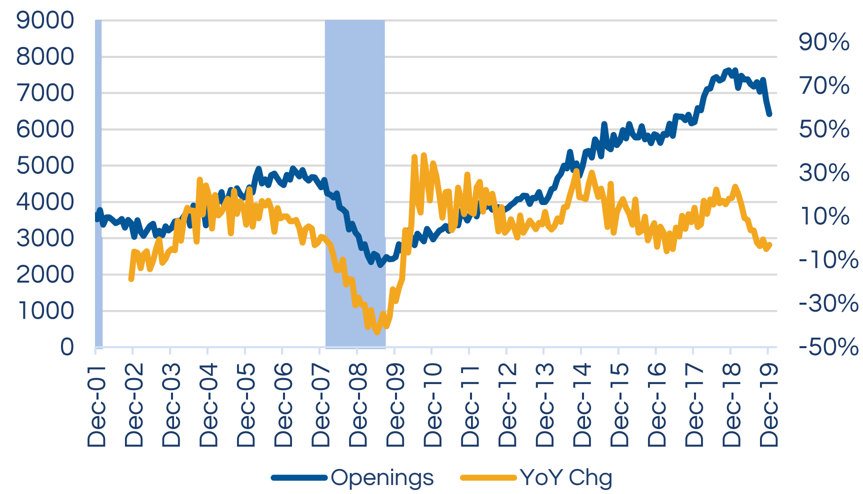
A Jolt To Complacency

In our 2020 Outlook, we suggested that the U.S. remains the relative bright spot across the global economy. Job growth remains stable, the U.S. economy is experiencing near record-low unemployment, and the consumer appears to be spending. Since the end of the Global Financial Crisis (GFC)[1] , the U.S. economy has added roughly 22 million jobs, averaging about 170,000 over a rolling 12-month period. On the surface, the U.S. is and should remain the best place to invest capital globally, especially now, given the undetermined impact of the Coronavirus.

But as we have suggested over the past several weeks, it is the punch that you don't see coming that typically knocks you out. And the recent revisions to both cases and deaths heighten our concerns regarding the economic unknown-unknowns associated with the Coronavirus.

Add to this, the latest release of the Job Openings and Labor Turnover Survey[2] conducted by the Bureau of Labor Statistics, furthers our fears that cracks may be forming in our economy. According to the BLS, the job openings level fell to 6.4 million, down 364,000, and the job openings rate decreased to 4.0 percent in December. **Moreover, over the year, the job openings level declined by 14.9 percent.**

Job Openings | As of December 2019



Source: FactSet and NEPCG

While bulls suggest that overall job growth remains robust, we remind our readers that monthly payroll figures published the first Friday of every month are lagging indicators of overall economic activity. This is why we focus more on the JOLT survey, which is more co-incidental and leading. These recent JOLT trends wouldn't be alarming taken in isolation. However, the S&P 500 is now trading at 19x next-12 months earnings ($178), which is **not only the highest valuation level dating back to 2001 but is well ahead of the long-term average of only 15x.** In addition, at current levels, the S&P is trading well above 1-standard deviation (17.9x) and only 1-turn from the 2-standard deviation level of 20x . Therefore, we remain very cautious regarding the complacency of the recent equity market surge. Finally, credit spreads are at the tightest levels in over five years, suggesting there is little room for a deterioration in economic conditions, as the as fixed-income market is discounting any degree of economic or geopolitical uncertainty. We'd love to hear your thoughts.

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[1] The GFC refers to the period of extreme stress in global financial markets and banking systems between mid-2007 and early 2009.

[2] JOLT survey results carry a one-month lag compared to the more popular Current Employment Statistics (CES).

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