Weekly Capital Market Comments

May 23, 2019

NORTHEAST | SEQUOIA
PRIVATE CLIENT GROUP

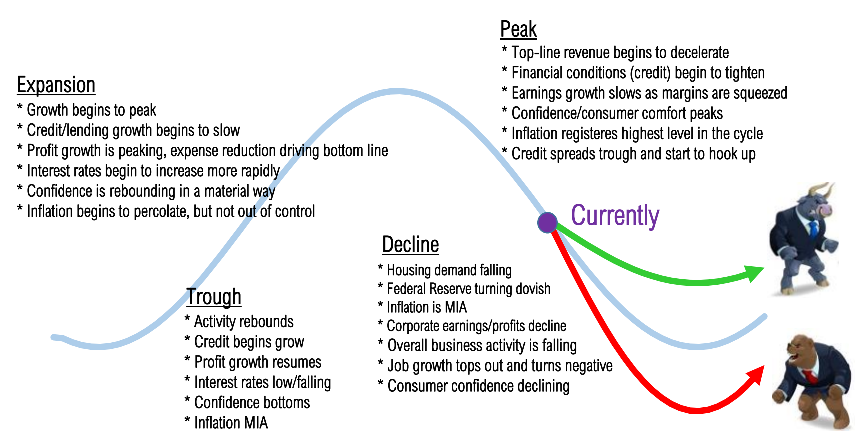
He Said, She Said…

Weekly Review

Markets were mixed over the last five trading days, more so than usual, as investors continue to digest a whole host of manic trade, geopolitical and domestic economic headlines. The S&P was up 0.2% over the last week, while the NASDAQ was off 0.9% as the U.S. trade war has turned into a U.S. "tech" war. Interestingly, High Yield performed exceptionally well, despite the slow and gradual back-up in yields and widening of credit spreads since mid-April. Large Cap Value has outperformed over the last several days, while Small Cap Growth continues to lag. At some point, Small Cap Growth will be the sector to focus on, especially names with no trade/China/tech exposure. Defensive sectors are holding up better than the Cyclical group, as Utilities and Healthcare were up 2.2% and 1.9% over the last 5 trading days.

Another hectic week, politically at least, as the latest back and forth between leaders of the left and right had all the makings of an awkward soap-opera. It is hard to imagine that even infrastructure can get done at this point. Add to this, the US capital market is finally becoming more aware that trade uncertainty may be here to stay (or at least until June 1st), and that forward earnings growth may have more downside than what is currently implied. The POTUS is still refusing to release his tax returns, but that spectacle may become old news quickly if Deutsche Bank (and BankOne) releases dodgier financial details about the Trump Organization. It has always been our view that the biggest risk to the Trump Presidency occurred before the campaign even started, not Russian intervention or the dysfunctional administrative approach in-place since his inaugural speech. Then there is poor PM May, who served up yet another plan to tactfully execute Article 50, which was received almost as well as Mayor de Blasio's Presidential campaign. The S&P is currently trading at 16.4x, down from the recent resistance level of 17x in late April '19. We continue to believe the S&P will have difficulty breaching a 17-handle given the onslaught of negative headlines as well as potential and real economic headwinds we are facing both here and abroad. We believe we are firmly in the declining phase of an economic cycle, the question we continue to ponder is, "How deep?" Meaning given the relative strength of the U.S. compared to most developed markets/economies, will the next downturn be similar to '00/'01, when the U.S. economy only suffered two (2) quarters of negative GDP growth? And if it were not for the 911 Terrorist Attacks, we believe the '01 recession would have been much shorter, and market downside much less severe. So, believe it or not, we are more bullish than the tone of these notes may imply; markets simply need a pause.

Exhibit 1: Anatomy of An Economic Cycle



Source: NEPCG

Finally, with the official start of summer, we hope clients will take a break from the current political extravaganza and stock market roller coaster to honor those have sacrificed for the freedoms and privileges we sometimes take for granted. I too will be taking a break, as I celebrate my 45th birthday; a vintage that I have been revisiting for several years recently (LOL). But we also want to alert our clients to our upcoming 2Q19 webinar, where we will update our capital market thesis for the back half of 2019, and provide an opportunity to answer any questions you may have live. So be on the watch, you should be receiving "save the date" invitation in the next few days.

Until then, **we'd love to hear your thoughts.**

	Domestic Indices	1Week
1	DJ Industrial Average TR	0.6%
2	ICE BofAML US High Yield TR	0.3%
3	S&P 500 TR	0.2%
4	NYSE Composite PR	0.2%
5	BBgBarc US Government TR	-0.1%
6	BBgBarc US Agg Bond TR	-0.1%
7	BBgBarc Municipal TR USD	-0.1%
8	BBgBarc US MBS TR	-0.1%
9	US Inter Gov Bd TR Bond	-0.1%
10	S&P MidCap 400	-0.7%
11	NASDAQ Composite PR	-0.9%
12	Russell 2000 TR	-1.0%

	Style Stratificiation	1Week
1	US Large Val	0.9%
2	US Mid Growth	0.5%
3	US Large Growth	0.4%
4	US Large Cap	0.3%
5	US Growth	0.3%
6	US Market	0.1%
7	US Mid Cap	0.0%
8	US Mid Core	-0.3%
9	US Mid Val	-0.3%
10	US Core	-0.5%
11	US Large Core	-0.5%
12	US Small Growth	-1.0%

	Sector Stratificiation	1Week
1	US Utilities	2.2%
2	US Healthcare	1.9%
3	US Commun Svc Capped	1.7%
4	US Dfnsve Sup Sec	1.6%
5	US Financial Services	1.1%
6	US Consumr Dfnsve	0.6%
7	US Real Estate	0.2%
8	US Industrials	0.1%
9	US Cyclcl Sup Sec	0.1%
10	US Basic Materials	0.1%
11	US Snstve Sup Sec	-0.6%
12	US Consumr Cyclcl	-1.1%
13	US Energy Capped	-1.3%
14	US Technology	-1.3%

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

	International Markets	1Week
1	MSCI Pacific Ex Japan PR LCL	1.8%
2	MSCI EM Latin America PR USD	1.2%
3	FTSE 100 TR GBP	0.8%
4	MSCI Pacific PR LCL	0.7%
5	FSE DAX TR EUR	0.6%
6	MSCI World Ex USA PR LCL	0.5%
7	Nikkei 225 Average PR JPY	0.5%
8	MSCI Europe PR LCL	0.4%
9	Euronext Paris CAC 40 NR EUR	0.3%
10	MSCI Pacific NR USD	0.2%
11	MSCI Japan PR LCL	0.1%
12	MSCI World ex USA NR USD	0.1%
13	MSCI Europe NR USD	0.0%
14	MSCI EM PR LCL	-1.5%

Source: Morningstar.com