Weekly Market Recap
January 22, 2019

		Return	
Index	**Close**	**Week**	**YTD**
Dow Jones Industrial Average	24,706	3.0%	5.9%
S&P 500 Index	2,671	2.9%	6.5%
NASDAQ	7,157	2.7%	7.9%
Russell 2000 Index	1,481	2.4%	9.8%
MSCI EAFE Index	1,805	0.0%	5.0%
10-yr Treasury Yield	2.79%	0.09%	0.10%
Oil ($/bbl)	$53.75	4.2%	18.4%
Bonds*	$106.35	-0.2%	-0.1%

Source: Bloomberg,
01/18/19

*Bonds represented by the iShares U.S. Aggregate Bond ETF

Last Week:

U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) rose 2.9% after posting positive gains the three previous weeks. Optimism increased for a U.S.-China trade resolution, more Federal Reserve officials signaled patience with policy tightening, and the U.S. government shutdown continued to be largely ignored
  - Financials (+6.1%) outperformed as several large banks announced better-than-expected earnings reports
  - Industrials (+3.3%) outperformed as the outlook for U.S.-China trade resolution improved and the Fed released improving manufacturing data
  - Energy (+2.9%) continued to outperform as the price of oil rose 4.2% for the week and is now up 18.4% in 2019 to $53.80 per barrel after plummeting from $75.20 to $42.20 in the fourth quarter of 2018
  - Information technology (+2.8%), healthcare (+2.5%), materials (+2.3%), and consumer discretionary (+2.3%) each rose more than 2% in the week, but underperformed the S&P 500 Index
  - REITs (+2.1%), communication services (+2.1%) and consumer staples (1.5%) underperformed as slower growth, defensive stocks dragged down these sectors
  - Utilities (-0.2%) generated the worst sector performance for the week as investors favored less defensive sectors and the bankruptcy announcement from Pacific Gas and Electric (PG&E) due to expected liabilities from the recent California wildfires weighed on the sector
  - The snapback in US stocks year-to-date reflects a snapback from the fifth-sharpest decline since World War 2 in the market's P/E ratio (2018 S&P 500 earnings up an estimated 22%, vs. 4% decline in the S&P 500)
- The Dow Industrials rose 3.0%, modestly outperforming the S&P 500 Index

- Year-to-date, the Dow's 5.9% advance marks its best start to a year since 1997

- Small-cap equities underperformed U.S. large caps in the week as the Russell 2000 Index rose 2.4%, but remains ahead of the S&P 500 Index for 2019 as it advanced 8.8% in its first 12 trading days, the best start to a year for the index since 1987
- The technology-heavy Nasdaq Composite Index (+2.7%) underperformed the S&P 500
- A visual reminder that the nine year bull market run has endured plenty of stumbles along the way. Volatility and corrections are normal!

Source: Jefferies

International Markets and News

- European equities (STOXX Europe 600) rose 2.3% for its third-straight weekly gain despite the UK Parliament's rejection of Prime Minster Theresa May's Brexit deal and speculation over the risk of a snap election in Italy. European Central Bank (ECB) officials downplayed recession risk, and the European Union (EU) unveiled a blueprint for a free-trade deal with the US
    - Autos & parts (+3.8%), construction & materials (+3.8%), real estate (+3.7%), financial services (+3.4%) and insurance (+3.4%) outperformed. Personal & household goods (+1.0%), travel & leisure (+0.8%), media (+0.7%), healthcare (+0.7%), and telecom (+0.4%) underperformed
    - Autos likely benefitted from the hopes of thawing U.S.-China trade tensions and blueprint for an E.U.-U.S. free-trade deal that would cut tariffs on a wide range of industrial goods including cars
    - As expected, U.K. Parliament rejected Prime Minster May's Brexit deal by 432 to 202 votes. After her defeat, May successfully won a no-confidence motion and she invited all leaders of the opposition parties for talks. On Monday, (01/21/19), May presented a new Brexit plan

stating that she remained committed to delivering a deal ahead of Article 50's expiration on March 29th

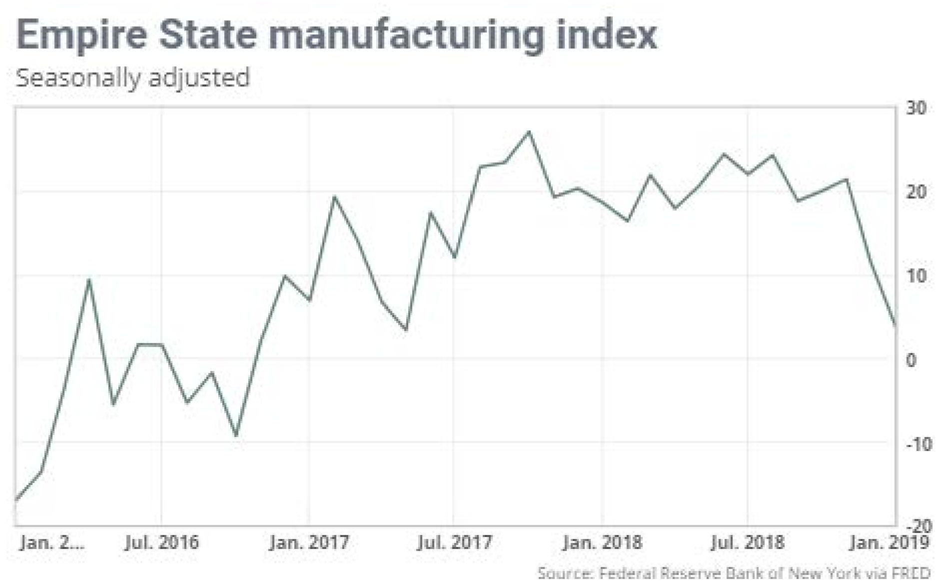
- Markets seem to be pricing in a growing likelihood for a no-Brexit scenario, with the country potentially holding a new referendum on the issue. Betfair odds now show an 80% probability of a Brexit delay, up from just 33% prior to New Year's Day
- ECB officials acknowledged the slowdown in economic activity, but stated they did not see signs of a recession in the euro area. President Draghi maintained his dovish credentials, emphasizing that now was not the time for complacency and reiterated that a significant amount of stimulus is still needed
- Data showed Germany's economy decelerated sharply last year due to slowing consumer spending and weakness in key export markets as GDP grew 1.5% in 2018, the weakest in five years

- Chinese markets rose (Shanghai Composite Index +1.7%) during the week as momentum picked up toward a possible trade deal with the U.S. and Bloomberg reports of a proposed six-year buying spree of U.S. goods
  - Sentiment improved after the *Wall Street Journal* reported Thursday that U.S. Treasury Secretary Steven Mnuchin discussed lifting some or all tariffs imposed on Chinese imports and a tariff rollback during trade talks scheduled for January 30th
  - On Friday, Bloomberg reported that China would attempt to eliminate the country's trade surplus with the U.S. by 2024 by purchasing $1 trillion worth of U.S. goods
  - China plans to set an official growth target of 6.0% to 6.5%, down from 6.5% in 2018 as the country braces for higher U.S. tariffs and weakening domestic demand
  - China's GDP reportedly grew 6.6% in 2018, its slowest pace since 1990. The country's fourth quarter GDP advanced 6.4%, matching consensus forecasts
- Japanese equities rose 1.5% (Nikkei 225 Index) during the week as positive developments of the U.S.-China trade dispute unfolded. Japanese headline inflation rose at its slowest pace since 2017, and machinery orders slowed in November
  - Year-over-year inflation fell to 0.3% in December from 0.8% in November, which is the slowest pace since 2017 and reflects price declines in food, housing, and transportation
  - Japan's core machine orders declined 6.4% month to month in November, according to the Cabinet Office. The weakness was likely due to the slowdown in the electronics and steel manufacturers industries

U.S. Economic and Political News

- Economic data was mixed
  - The Producer Price Index fell -0.2% sequentially in December, its biggest decline in five months. That was a bigger drop than the -0.1% consensus forecast, and reflected significant declines in fuel prices. Ex-food and -energy, the core PPI was flat sequentially and +2.8% year-over-year
  - Weekly Jobless Claims printed 213,000, a shade better than consensus estimates

- Industrial Production rose 0.3% in December, a tick above the 0.2% consensus guess
- Capacity Utilization rose to 78.7% in December, also slightly stronger than the 78.5% forecast
- The University of Michigan's Consumer Sentiment index came in at 90.7 for January, well below the 96.7 estimate
- The Empire State index came in at 3.9 in January, its lowest reading in more than a year



- The White House doubled its projection of the shutdown's impact on GDP, now saying that if the shutdown lasts through the end of the month, it would trim half a percentage point from first quarter GDP. The adjusted estimate now incorporates the impact from private contractors who are out of work
  - Among the government agencies and activities being impacted: the federal court system, Food & Drug Administration inspections, Securities & Exchange Commission initial public offering listings, the Federal Aviation Adminstration, the Federal Communications Commission, and the Coast Guard
  - Lawmakers have until today (1/22/19) to reach a deal, otherwise federal employees will miss their second-straight paycheck
  - Senator Chris Coons (D-Del.) offered sentiment that most Americans likely agree with: "The shutdown will eventually take us to a place where the average American is angry and sick of all of us"
- The Federal Reserve's recent interest-rate increases are not a "headwind" slowing the momentum of the economy, said Fed Vice Chairman Richard Clarida, on Monday. "The economy has good momentum going into 2019," even as the U.S. central bank has been gradually raising rates, Clarida said, in an interview on Fox Business Network.

  - The Fed vice chairman defended the December rate hike, calling it "appropriate," and said the Federal Funds rate is now only slightly higher than the inflation rate, historically a very low level of interest rates.
  - Looking forward, the Fed "can afford to be very patient" on future interest rates moves, Clarida said. In particular, the Fed will be watching the slower global economy. So far, the impact from overseas is not severe on the domestic economy, he said
- Kansas City Fed President Esther George, heretofore hawkish, has turned dovish, saying “now might be a good time to pause, [and] that we should proceed with caution and be patient” around future interest rate increases
  - Ms. George went on to opine that the Fed’s shrinking of its balance sheet may be a “fair explanation” for recent market volatility

Commodities

- WTI crude was up another 4.2% for the week, bringing its year-to-date gain to 18.4%, after dropping significantly in the fourth quarter of 2018

Source: FactSet

This Week:

- A holiday shortened week in the U.S. will compound earnings volume mid week as fourth quarter earnings season continues with several regional banks and industrial companies reporting this week
    - Tuesday: Ameritrade, IBM, Fifth Third, Zions, **Stanley Black & Decker**, **Capital One**, Travelers, Halliburton, Rollins, **Johnson & Johnson**
    - Wednesday: **Abbott Labs**, Amphenol, **Towne Bank**, **Hexcel**, Progressive, Raytheon, TE Connectivity, **Crown Castle**, Fair Isaac, Ford, Las Vegas Sands, Northern Trust, Citrix, **Waters**, Kimberly Clark, **Comcast**, Raymond James, Federated Investors, F5, Texas Instruments, Xilinx, Rollins, Teradyne, United Rentals
    - Thursday: **Alaska Air**, American Airlines, JetBlue, Southwest Airlines, Avnet, **Bristol-Myers**, Huntington Bancshares, McCormick, Etrade, Rockwell Collins, Intel, Union Pacific, Norfolk Southern, Western Digital
    - Friday: Air Products, **Abbvie**, Colgate, DR Horton, Nextera Energy, Synchrony Financial
- U.S. economic data:
    - Monday: Martin Luther King Holiday
    - Tuesday: Existing Home Sales (Dec)
    - Wednesday: FHFA Home Price Index (Nov), Richmond Fed Index (Jan)
    - Thursday: Markit Composite PMI Flash (Jan), Kansas City Fed Index (Jan)
- International economic data:
    - Monday: Euro-zone: Eurogroup Meeting; Germany: PPI (Dec); UK: Rightmove House Price (Jan); China: Industrial Capacity Utilization, Retail sales (Dec), Industrial Production (Dec), GDP growth Rate; Japan: Reuters Tankan Index (Jan)
    - Tuesday: Euro-zone: ZEW Economic Sentiment (Jan); Germany: ZEW Current Situation / Economic Sentiment (Jan); UK: Claimant count Change (Dec), Employment change (Oct), Unemployment Rate (Nov), Average Earnings Bonus (Nov)
    - Wednesday: Euro-zone: Consumer Confidence Indicator (Jan); UK: CBI Industrial Trends (Jan); Japan: Balance of Trade (Dec), Import / Export (Dec), BoJ Interest Rate Decision
    - Thursday: Euro-zone: Markit Composite Flash PMI (Jan), Markit Services PMI Flash (Jan), ECB Interest Rate decision, ECB press conference; Germany: Markit Composite PMI (Jan); Japan: Nikkei Manufacturing PMI (Jan), Coincident Index (Nov), Leading Economic Index (Nov), Tokyo Core CPI (Jan)
    - Friday: Germany: Ifo Business climate/ current conditions (Jan); UK: Finance Mortgage Approvals (Dec), CBI Distributive Trades (Jan)

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