



Index	Return		
	Close	Week	YTD
Dow Jones Industrial Average	25,942	-2.1%	11.2%
S&P 500 Index	2,881	-2.2%	14.9%
NASDAQ	7,917	-3.0%	19.3%
Russell 2000 Index	1,573	-2.5%	16.6%
MSCI EAFE Index	1,860	-3.1%	8.1%
10-yr Treasury Yield	2.47%	-0.06%	-0.22%
Oil (\$/bbl)	\$61.67	-0.4%	35.8%
Bonds*	\$108.67	0.3%	3.1%

Source: Bloomberg, 05/10/19

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

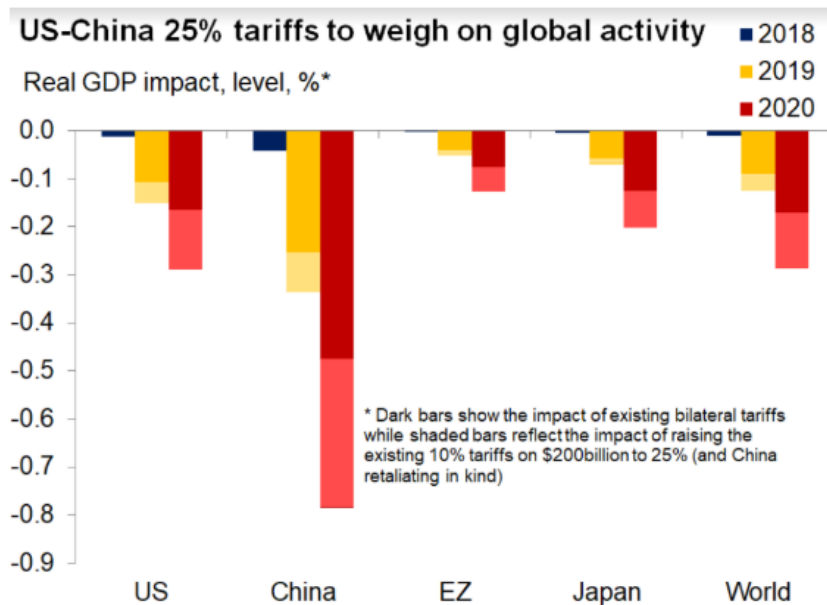
Last Week:

U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) fell (-2.2%) as President Trump followed through on his threat to raise tariffs on \$200 billion of Chinese imports from 10% to 25%, and Federal Reserve officials downplayed concerns about low inflation
 - Consumer staples (-0.4%) outperformed with pockets of strength in the food space
 - Energy (-0.6%) outperformed as the price of oil fell only -0.4%. Chevron indicated it won't raise its bid for Anadarko Petroleum, making **Occidental** (and financier **Berkshire Hathaway**) the apparent victor(s)
 - REITs (-0.6%) and utilities (-0.7%) outperformed as investors favored defensive sectors
 - Healthcare (-1.5%) outperformed as health insurers held up relatively well, including **UnitedHealth** (unchanged) and **Anthem** (-0.2%)
 - Communication services (-1.9%) outperformed with strength in telecommunications (AT&T +0.1%, & **Verizon** 0.0%) and cable networks
 - Financials (-2.3%) underperformed as banks struggled with a lower interest rate backdrop
 - Consumer discretionary (-2.5%) underperformed with weakness in retail, apparel, and autos
 - Industrials (-2.8%) underperformed on broad-based pressure with machinery and distributors the big decliners
 - Materials (-2.8%) underperformed with weakness in industrial metals
 - Information technology (-3.6%) underperformed on weakness from semiconductor and hardware companies
- The Dow Industrials slightly outperformed the S&P 500 Index
- Small-cap equities underperformed U.S. large caps, and the Russell 2000 Index year-to-date performance is 1.7% ahead of the S&P 500 Index
- The technology-heavy Nasdaq Composite Index (-3.0%) underperformed the S&P 500

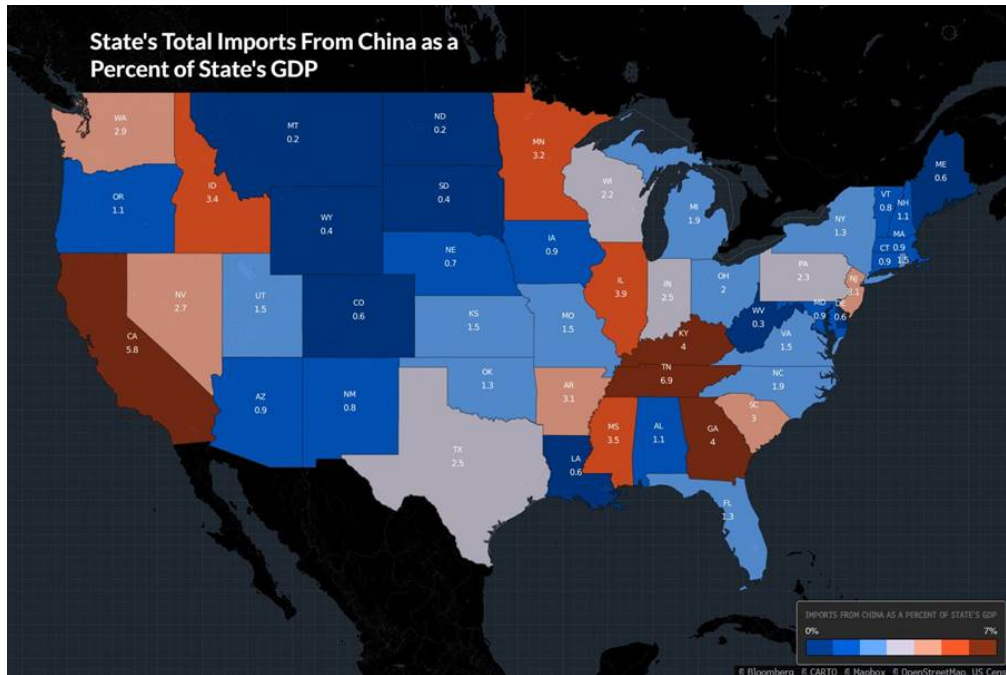


- Zayo announced it is being taken private by two investment firms for \$35/share
- Retailer Chico's is being taken private by Sycamore Partners
- Edgewell (parent of Schick and Edge shaving brands) announced it is buying Harry's (online/subscription shave service) for \$1.37 billion in cash and stock
- Uber became public at \$45/share, near the low end of the proposed range. Still, that gave the newly public company an \$80 billion market value. The stock closed Friday afternoon 7.6% below its Thursday evening IPO price, making it the fifth-worst performing IPO of a \$10+ billion company in the past 20 years (based on its first day's performance). Roger McNamee, co-founder of Elevations Partners and early Facebook investor said this about the Uber IPO: "This deal is not going well. We're looking at a potential train wreck here." Shares were down another 8% in the first 30 minutes of trading today
- Lyft reported a \$1.1 billion loss in its first quarter as a publicly traded company
- Tariffs on certain Chinese goods increased to 25%, from 10%, after Thursday's midnight deadline passed without a bilateral trade agreement. President Trump also threatened to implement a 25% tariff on the remaining tranche of \$325 billion of Chinese imports. China's economy appears to face the worst impact of the announced tariffs, but the chart below suggests there are likely to be few, if any, winners in a trade war



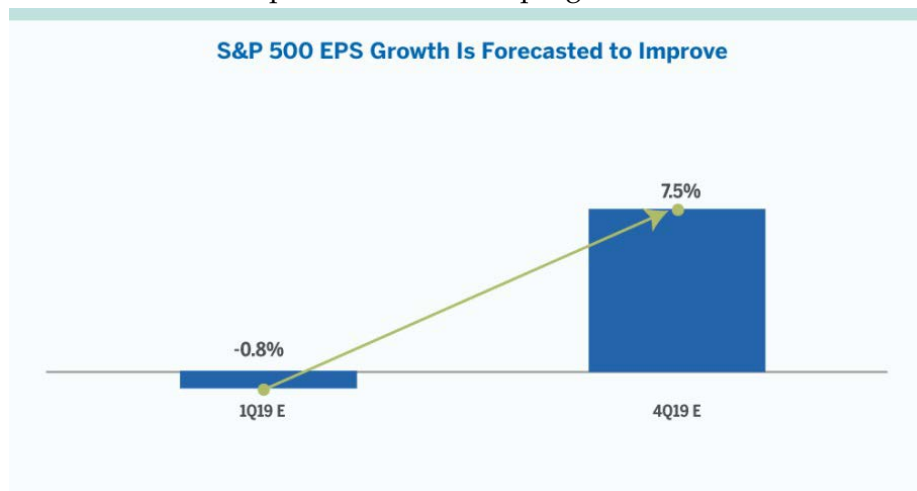
Source: Oxford Economics

- The accompanying chart highlights states that over-index to China imports – that's you, California, Georgia, Kentucky, and Tennessee



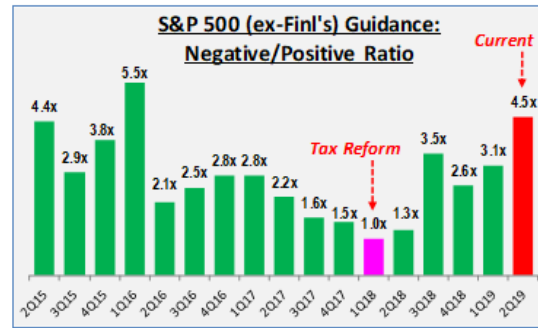
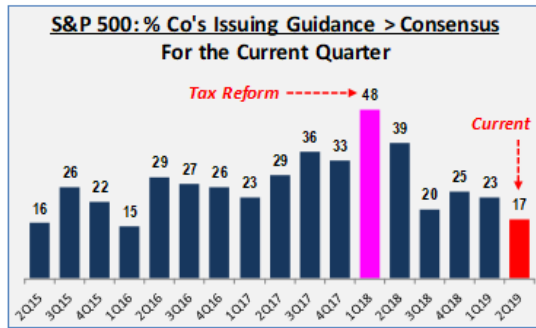
Source: Marketwatch.com

- More tariffs seem unlikely to serve as the magic elixir to generate the anticipated earnings growth acceleration that Wall Street has penciled in as 2019 progresses



Source: FactSet actual/consensus estimates

- While first quarter earnings have come in considerably better than expectations, guidance for the balance of 2019 has been soft relative to historical averages



Source: Wolfe Research

- The short position in the VIX volatility index has reached its highest level in a decade, which seems a bit at odds amid a tariff spat with China, among other near-and-present uncertainties

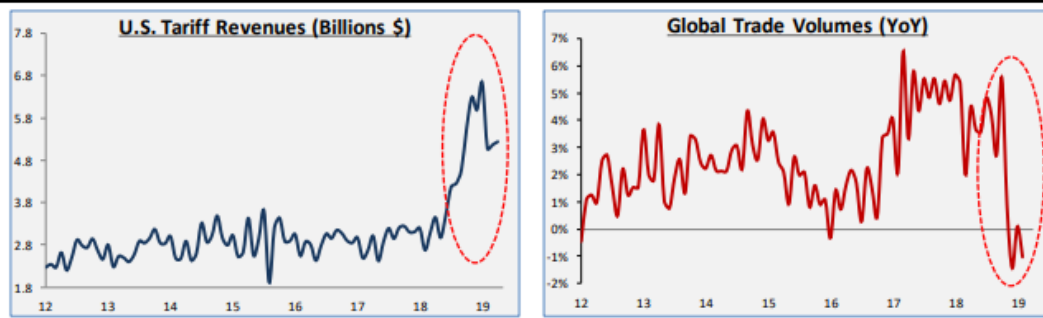


Source: Bespoke

U.S. Economic and Political News

- Does the geopolitical environment explain President Trump nominating Patrick Shanahan to be Secretary of Defense? Mr. Shanahan has been serving as acting secretary, and before that was Deputy Defense Secretary. Previously he was a Boeing executive
- The imposition of incremental tariffs already appears to be taking a toll on global trade

U.S. Tariff Revenues Vs. Global Trade Volumes



Sources: Wolfe Research Portfolio Strategy, CPB Netherlands Bureau for Economic Policy Analysis, U.S. Treasury, and Bloomberg.



- Economic data was light:
 - Weekly Jobless Claims were 228,000
 - The Consumer Price Index showed a 0.3% gain in April, a shade shy of the 0.4% consensus forecast. The core CPI (excludes volatile food and energy components) likewise came in a tick light vs. consensus, at 0.1%
 - The Producer Price Index rose 0.2% in April, matching consensus forecasts, while core PPI edged up 0.1%, vs. a 0.2% consensus estimate

International Markets and News

- European equities (STOXX Europe 600) fell -3.4% as U.S.-China trade tensions weighed on global markets, the European Commission cut its Italian GDP growth estimates, Norway's Central Bank primed the market for a June rate hike, and the UK will participate in EU elections as cross-party talks stall. German economy shows signs of resilience
 - German March industrial production unexpectedly increased +0.5%, ahead of the expected -0.5% decline, and the prior gain of +0.4%. Additionally, trade data showed an unexpected rebound in exports, up +1.5% versus expectations for a drop of -0.3% and prior decline of -1.3%
 - European Commission cut its Italian GDP growth estimate for 2019 to +0.1% from +0.2% and sees 2020 GDP at +0.7% from +0.8%
 - Bucking the trend of dovish-tilting major global central banks, Norway's central bank kept its policy rate unchanged and concluded that the policy rate most likely will be raised in June 2019 based on its outlook
- Chinese markets (Shanghai Composite Index) fell (-4.5%) as trade-related uncertainty weighed on local and global markets
- Japanese equities fell -4.1% (Nikkei 225 Index). Japanese PMI returned to growth, but exports declined, wages fell in March, and a planned consumption tax increase is scheduled to be implemented in October
 - The preliminary Markit/Nikkei Japan Flash Manufacturing Purchasing Managers' Index (PMI) rose to a seasonally adjusted 50.2 in April, signaling a slight expansion (i.e. above the 50.0 level), however, the survey also highlighted a decline in new export orders likely due to the U.S.-China trade dispute
 - Japanese pay fell in March by -1.9%, which represents the steepest year-over-year decline since June 2015, and exceeded Bloomberg estimates of a -0.5% drop
 - Senior Liberal Democratic Party Leader Katsunobu Kato affirmed that the planned consumption tax increase to 10% should be implemented in October

Commodities

- The price of crude oil fell -0.4% this week, but remains up +35.8% in 2019 after collapsing in the 2nd half of 2018; however, most energy stocks have underperformed the massive rally in the commodity with appreciation of only 12%-25%



This Week:

- Stocks are sharply lower in Monday morning trading, reacting to China responding with an announcement of 25% tariffs on \$60 billion of U.S. goods, effective June 1
- Earnings season winds down as the volume of releases will see a significant drop this week. Notable releases include, but are not limited to: Legg Mason, Take-Two Interactive, Ralph Lauren, Alibaba, Macy's, **Cisco Systems**, Walmart, Nvidia, Jack in the Box
- U.S. economic data:
 - Monday: Consumer inflation expectations (Apr), Fed speakers Rosengren and Clarida
 - Tuesday: Import / Export prices (Apr), NFIB business optimism index, Fed Speakers Williams and George
 - Wednesday: Retail sales (Apr), NY Empire State Manufacturing Index (May), Manufacturing production (Apr), Capacity Utilization (Apr), Industrial Production (Apr), NAHB housing (May), Business Inventories (Mar)
 - Thursday: Building Permits (Apr), Housing Starts (Apr), Philly Fed Manufacturing Index (May)
 - Friday: CB leading index (Apr), Michigan inflation expectations (prelim May), Mich Consumer Expectations (May)
- Overseas economic data will be highlighted by China's industrial production and retail sales on Tuesday

As always, thank you very much for your interest in our thoughts and support of our services.

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