

February 11, 2019

What Happened Last Week?

- **Stocks: Overdue For A Pause:** Stocks have had the wind at their sails throughout the first six weeks of the new year, but signs that the rally might be losing steam began to show over the course of the back-half of last week. The S&P 500 remains up by 8% year-to-date, and was still up on the week, but after a 1% rally Monday through Wednesday, gave back 0.8% over the course of Thursday and Friday, as estimates for European growth in 2019 were ratcheted lower and uncertainty tied to trade surfaced yet again. Equity markets are overdue for a breather after the move off of the December lows, and with the bulk of earnings season now behind us, there's likely no more perfect time for stocks to tread water or potentially trade lower.
- **Bonds: Treasuries Rally On Trade Chatter:** 10-year U.S. Treasury bonds continued to garner inflows last week, with the yield dropping from 2.70% at the start of the week down to 2.63% at the end of the week amid chatter that a trade deal between the U.S. and China was unlikely to materialize prior to March 1. Trade uncertainty will remain a storm cloud over the market for at least another few months, generating steady demand for Treasuries from those seeking safety.
- **Commodities: Crude Falls On Stronger Dollar/Declining Growth Expectations:** After dropping in price by nearly 25% per barrel in 2018, West Texas Intermediate (WTI) crude oil staged a comeback over the first month of the new year, rallying 18.5% in January alone. Last week, however, WTI dropped 4.5% as European economic growth estimates were lowered yet again and the U.S. Dollar Index (DXY) rallied by 1%. While strength in the dollar is a negative, OPEC production cuts appear to be providing stability and a floor under crude prices in the low-\$50's per barrel, preventing a deeper sell-off as global growth expectations are called into question. A significant uptick in demand is unlikely to materialize prior to March/April, so near-term (4-8 weeks) upside is likely capped close to current levels.

Getting Granular

Stagnant Yields Highlight Uncertain Backdrop: Bond yields have been hibernating, but as winter turns to spring, we expect upward pressure on interest rates to resume. We remain positioned for rates to rise while remaining neutral on high yield credit and positive on emerging market debt.

- Global equity markets may have rebounded sharply off of pre-Christmas low levels, but Treasury bond yields have remained stubbornly static within a downward trend up to this point. Notably, 2-year and 10-year U.S. Treasury bonds traded hands at the end of last week carrying yields of 2.46% and 2.63%, respectively, versus 2.55% and 2.74% on Christmas Eve at the culmination of the equity market sell-off.
- FOMC policy expectations post-January's meeting appears to be aligned with that of the market entering the year - the FOMC, not market participants, altered its view. Whereas the FOMC dot plot projected 2-3 rate hikes through year-end, market participants have long been in the 1 hike or less camp for '19, which doesn't appear far off from where the FOMC has shifted.
- Many investors just recently flocked to Treasury bonds during the 4th quarter equity rout, and human nature likely makes them less than eager to redeploy capital into stocks this soon. Investors remain skittish, and only time combined with higher stock prices amid low volatility is likely to alleviate this condition, making demand for Treasury bonds stickier.
- Interest rates across the curve should rise gradually as uncertainty tied to trade is removed from the equation and economic growth expectations stabilize or potentially turn up.

Crunch Time On Trade: The outlook for emerging markets in '19 hinges on a U.S./China trade deal. Significant uncertainty remains leading up to the March 1 deadline, although dialogue has been encouraging. Both sides appear more eager to get a deal done given fragile sentiment in the U.S. and deteriorating retail sales and consumer confidence in China. The removal of uncertainty tied to trade relations would be a positive for global equities, specifically emerging markets.

- In the coming week, Treasury Secretary Steven Mnuchin and U.S. Trade Representative Robert Lighthizer will travel to China to meet with trade reps from the People's Republic in an effort to hammer out additional key details on a trade agreement. With no written accord being presented, it appears as though an extension of that deadline may be the most likely outcome.
- A meeting between President Trump and President Xi Jinping of China was rumored to be on the docket for late February, increasing the probability of a deal coming to pass in the eyes of investors. Last Thursday, headlines crossed that a meeting between the two was 'highly unlikely' to occur prior to the March 1 deadline, raising anxiety levels as investors speculated that perhaps a deal might be farther off than previously speculated. Larry Kudlow, one of the President's top economic advisors, stated as much the same day. The latest in what has become a weekly back and forth as trade optimism/higher stock prices are quickly replaced by pessimism/lower prices.
- Certainty on the trade front is likely to elude investors for a bit longer, which means continued volatility as news flow surrounding trade dictates market action from one day to the next.

	Price/Yield			Total Return (%)			
	2/8/2019	1 Week Ago	1 Month Ago	Year to Date	1 Year	3 Years	5 Years
Dow Jones Industrial Average	25106.33	0.32	5.78	7.91	7.69	19.02	12.41
S&P 500	2707.88	0.11	5.37	8.24	7.04	15.82	10.80
NASDAQ	7298.20	0.53	5.90	10.10	8.90	20.79	13.37
Russell 2000 Index	1506.39	0.32	5.67	11.80	4.29	17.44	7.63
MSCI World ex US	1806.14	-0.28	2.95	5.70	-7.00	9.28	2.62
MSCI EM	1036.03	-0.91	6.24	7.34	-8.38	15.23	4.85
Bloomberg Barclays US Aggregate	3.16	0.38	1.14	1.20	3.22	1.77	2.44
Bloomberg Barclays Global Aggregate	1.93	-0.23	0.77	1.03	-0.16	2.05	0.99
Bloomberg Barclays US Corporate Index	3.89	0.46	2.42	2.68	2.25	3.85	3.43
Bloomberg Barclays 10-Year Muni Index	2.35	0.33	0.97	1.37	4.80	2.08	3.72
Bloomberg Barclays High Yield Index	6.89	0.17	2.24	4.83	3.24	10.38	4.62

	Price/Yield						
	2/8/2019	1 Week Ago	1 Month Ago	12/31/2018	1 Year Ago	3 Years Ago	5 Years Ago
1 Month LIBOR (rate)	2.50	2.51	2.52	2.50	1.58	0.43	0.16
30 Year Mortgage (average rate)	4.35	4.39	4.43	4.59	4.33	3.67	4.30
2 Year Treasury (yield)	2.46	2.50	2.59	2.50	2.13	0.67	0.30
10 Year Treasury (yield)	2.63	2.69	2.72	2.68	2.85	1.75	2.68
30 Year Treasury (yield)	2.98	3.03	3.00	3.01	3.14	2.58	3.67
WTI Crude (closing price)	52.74	55.29	49.58	45.15	61.30	29.71	99.98
Brent Crude (closing price)	62.12	61.86	56.91	50.57	64.26	31.64	107.11
Gold (NYM \$/oz)	1313.70	1316.90	1283.20	1278.30	1316.90	1197.90	1263.30

Source: FactSet

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