Wealth Management Market Commentary

REGIONS
ASSET MANAGEMENT

April 22, 2019

What Happened Last Week?

Stocks –Topping Out, Or Taking A Breather? We entered headlong into earnings season last week, although markets appeared to barely take notice, with the S&P 500 falling just 0.8% over the course of the holiday-shortened week. Notably, the largest single-day move in the S&P 500 last week was just a 0.23% decline last Wednesday. Entering this earnings season, the consensus estimate called for S&P 500 earnings per share to decline 4% from 1Q18, but with just over 15% of the S&P 500 having reported, EPS are flat year over year. Analyst estimates likely fell too far and may be poised to rebound near-term. The S&P 500 is taking a well-deserved respite and could climb to new highs before the end of April.

- Following in the footsteps of Lyft's spectacularly disappointing IPO on March 29, Pinterest and Zoom came public last Thursday, valued at $10B and $9B, respectively. The Pinterest and Zoom offerings were both oversubscribed, and while each company made every effort to price at a lower valuation so as to avoid a Lyft-like collapse shortly after trading began, investors had a different idea and demand proved voracious, with Pinterest and Zoom opening well above the higher-end of each company's projected range. In the 3+ weeks Lyft has been public, the stock has declined 25%, but after the Pinterest and Zoom offerings, it appears as though Lyft's poor showing hasn't yet shaken investor confidence or their appetite for IPOs. As we highlighted around the Lyft IPO, portfolio managers shifting around positions within the information technology and consumer discretionary sectors should be expected as existing holdings are sold to partake in IPOs. High flying cloud-oriented stocks were sold almost wholesale last week, which we speculate was driven primarily by a reallocation into the Pinterest and Zoom IPOs, and with IPO mania just beginning, additional profit-taking in leadership groups may follow.
- Last Wednesday we received some economic data out of China that on the surface appeared supportive of the idea that the Chinese economy has stabilized due to recent fiscal stimulus efforts. Both industrial output and retail sales for the month of March surpassed the consensus estimate, sparking a small rally in onshore Chinese A-shares and in Japan, while failing to generate much lift in U.S. markets. Stabilization in the Chinese economy followed by a potential U.S./China trade deal give us increased confidence in our constructive stance on Chinese and emerging market equities.

Getting Granular

Buybacks & Sentiment Still Skew Bullish: Retail and institutional investors domestically and abroad have continued to pare back stock holdings, leading to notable outflows from active and index-linked equity products year-to-date. With many investors on the sidelines, corporate buybacks continue to propel the S&P 500. With $2.3T available in corporate cash coffers and global uncertainty preventing companies from spending it via capital expenditures, 2019 may give 2018's record for buybacks a run for its money.

- With the S&P 500 closing last week within 1% of September's all-time high, should we break out to a new high over the coming weeks, those over-allocated to bonds and/or cash may begrudgingly become buyers of stocks, adding fuel to the rally's fire.
- Buybacks have supported equity prices since the start of 2018, and with ample cash, an accommodative FOMC, and continued global economic uncertainty, we see little impetus for this particular equity market tailwind to exit stage left near-term. Companies in the S&P 500 repurchased a record $806B of their own shares in 2018, and with a $2.3T cash hoard remaining, appear poised to do more of the same over the balance of 2019.
- Investor surveys, many of which are qualitative in nature and based off of sentiment or feelings, not actual allocations, are beginning to point toward investor optimism on stocks building, but with net outflows from equity mutual funds month after month, many investors may be saying one thing, i.e. that they are bullish on stocks, but are doing quite another with their capital.
- Year-to-date, equity funds, both mutual funds and ETFs, have experienced approximately $90B in net outflows, based off of fund flow data compiled by BofA Merrill Lynch, while bond funds have taken in a net $120B. According to Lipper data, $56B exited equity funds in 4Q18's rout.
- For the week ending April 10, the American Association of Independent Investors (AAII) Sentiment Survey pointed toward 40.3% of respondents being "bullish" on stocks over the next six months, while 39.3% were "neutral" and 20.4% were "bearish". Those bullish aren't far off of the historical average of 38.5%, those falling into the neutral camp are well above the historical average of 31.0% and those bearish are well below the historical average of 30.5%.
- Maybe this is simply a case of investors being slightly less negative on stocks as opposed to being more positive? Semantics to be sure, but the AAII Survey is perhaps yet more evidence of how individual investors aren't embracing the rally. The recent flurry of IPO activity has some eager to call an impending market top, but with survey data such as AAII continuing to come in at these levels, euphoria appears some ways off in our view as the retail investor plays defense.

A Different Kind Of Spring Fever For Health Care: At the sector level, health care was last week's big loser, falling 6.5%. Health Care Providers & Services declined 8.8%, while Health Care Equipment & Supplies fell 7%. Pharmaceuticals held up the best on a relative basis, but still fell 6%. The recent improvement in U.S. economic data began the exodus from health care as investors began to favor pro-cyclical stocks to the detriment of the less economically sensitive businesses found in the sector. Perhaps the baby has been thrown out with the bathwater in health care, with the good and the bad viewed as just plain ugly. Opportunities likely abound in the sector, but selectivity is crucial at present.

- Of the 10 current S&P 500 sectors, health care is the only one with a negative price return in 2019. The sector is down 0.7%, underperforming the broader S&P 500 by 16.6% year-to-date.
- The sector has become a battleground as Bernie Sanders has shown that he that he has some staying power in some very early Presidential polls. Sanders' numbers have caused some heartburn for investors in the managed care space specifically – think UnitedHealth, Anthem, and Humana – as the rallying cry of "Health Care for All" likely won't go away any time soon.
- We're still 19+ months away from the Presidential election, so more volatility in this space should be anticipated. Active managers sifting through the ashes in health care will likely find plenty of "value" along with quite a few value traps along the way.

Sources: Bloomberg, Dow Jones, Factset, AAII, BofA ML, Lipper

	Price/Yield	Total Return (%)					
	4/19/2019	1 Week Ago	1 Month Ago	Year to Date	1 Year	3 Years	5 Years
Dow Jones Industrial Average	26559.54	0.60	2.70	14.64	10.22	16.54	12.81
S&P 500	2905.03	-0.07	2.70	16.59	10.05	13.72	11.54
NASDAQ	7998.06	0.17	3.60	20.90	11.71	18.78	15.64
Russell 2000 Index	1565.75	-1.20	0.81	16.57	0.85	12.70	8.07
MSCI World ex US	1921.20	0.83	1.45	13.66	-2.99	7.41	3.22
MSCI EM	1092.52	0.55	2.20	13.63	-5.12	11.57	4.40
Bloomberg Barclays US Aggregate	3.03	0.06	0.85	2.58	4.79	1.79	2.59
Bloomberg Barclays Global Aggregate	1.85	-0.17	0.17	1.70	-0.52	1.05	0.79
Bloomberg Barclays US Corporate Inde:	3.66	0.10	1.70	5.24	5.74	3.36	3.60
Bloomberg Barclays 10-Year Muni Inde:	2.20	0.04	0.83	2.90	5.95	2.41	3.54
Bloomberg Barclays High Yield Index	6.17	0.03	1.58	8.44	5.92	8.02	4.84

	Price/Yield						
	4/19/2019	1 Week Ago	1 Month Ago	12/31/2018	1 Year Ago	3 Years Ago	5 Years Ago
1 Month LIBOR (rate)	2.48	2.48	2.49	2.50	1.90	0.44	0.15
30 Year Mortgage (average rate)	4.12	4.09	4.17	4.59	4.40	3.63	4.34
2 Year Treasury (yield)	2.39	2.39	2.46	2.50	2.43	0.76	0.40
10 Year Treasury (yield)	2.56	2.56	2.61	2.68	2.91	1.78	2.63
30 Year Treasury (yield)	2.96	2.97	3.02	3.01	3.11	2.59	3.45
WTI Crude (closing price)	63.74	63.86	59.12	45.15	68.30	40.91	104.31
Brent Crude (closing price)	71.65	71.57	67.13	50.57	74.85	42.36	110.02
Gold (NYM $/oz)	1271.90	1290.60	1305.00	1278.30	1346.80	1253.00	1293.40

Source: FactSet

Disclosures

The content and any portion of this newsletter is for personal use only and may not be reprinted, sold or redistributed without the written consent of Regions Bank. Regions, the Regions logo and other Regions marks are trademarks of Regions Bank. The names and marks of other companies or their services or products may be the trademarks of their owners and are used only to identify such companies or their services or products and not to indicate endorsement or sponsorship of Regions or its services or products. The information and material contained herein is provided solely for general information purposes. Regions does not make any warranty or representation relating to the accuracy, completeness, or timeliness of any information contained in the newsletter and shall not be liable for any damages of any kind relating to such information nor as to the legal, regulatory, financial or tax implications of the matters referred herein. This material is not intended to be investment advice nor is this information intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only current as of the stated date of their issue. Regions Asset Management is a business group within Regions Bank that provides investment management services to customers of Regions Bank.

Employees of Regions Asset Management may have positions in securities or their derivatives that may be mentioned in this report or in their personal accounts. Additionally, affiliated companies may hold positions in the mentioned companies in their portfolios or strategies. The companies mentioned specifically are sample companies, noted for illustrative purposes only. The mention of the companies should not be construed as a recommendation to buy, hold or sell positions in your investment portfolio.

Neither Regions Bank nor Regions Asset Management (collectively, "Regions") are registered municipal advisors nor provide advice to municipal entities or obligated persons with respect to municipal financial products or the issuance of municipal securities (including regarding the structure, timing, terms and similar matters concerning municipal financial products or municipal securities issuances) or engage in the solicitation of municipal entities or obligated persons for such services. With respect to this presentation and any other information, materials or communications provided by Regions, (a) Regions is not recommending an action to any municipal entity or obligated person, (b) Regions is not acting as an advisor to any municipal entity or obligated person and does not owe a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934 to any municipal entity or obligated person with respect to such presentation, information, materials or communications, © Regions is acting for its own interests, and (d) you should discuss this presentation and any such other information, materials or communications with any and all internal and external advisors and experts that you deem appropriate before acting on this presentation or any such other information, materials or communications.

Investment, Insurance and Annuity Products		
Are Not FDIC-insured	Are Not Bank Guaranteed	May Lose Value
Are Not Deposits	Are Not Insured by Any Federal Government Agency	Are Not a Condition of Any Banking Activity