

Weekly Market Overview

October 22, 2018



Peter Sorrentino, Chief Investment Officer, Comerica Asset Management

The opening week of third quarter earnings season took on a distinctly defensive posture, with consumer staples (+4.41%) and utilities (+3.06%) leading the winners. Value was positive, while growth declined (Russell 1000 Value Index at +0.78% and Russell 1000 Growth Index at -0.69%), and in capitalization, it was the S&P 400 Index – home to many utility and consumer staples companies – that took top honors with a gain of 0.17%. The declining segments were those you would expect to see going into a business downturn (energy at -2.01%, consumer discretion at -1.97%, materials at -1.23% and technology at -1.16%). The market is discounting an economic decline despite earnings reports, thus far, that are slightly ahead of forecast. Comerica's Chief Economist, Dr. Robert Dye, has forecasted 3% to 3.5% growth for third quarter GDP, with the probability of a recession in the next three years below 50%. A deceleration in growth over the coming quarters is to be expected, as labor markets have tightened, and energy prices have risen, but none of these foreshadow an imminent recession. Global markets declined last week with developed markets holding up well, as the MSCI EAFE® Index lost only 0.07%, and the MSCI Emerging Market Index lost 0.88%. Commodity prices were down almost across the board by about 1.25%. The U.S. dollar was up another half of a percent against the euro, bringing the month-to-date gain to 2%; this is also the average gain of the dollar versus most emerging market currencies. The bond market has been the beneficiary of recent equity selling as portfolios move to reduce their risk profile. This buying has been sufficient to hold the ten-year Treasury below the feared 3.25% threshold at 3.192%, but the gradually upward migration of the yield curve continues. Both corporate and municipal bond yields are rising as well, with the corporate BBB-rated curve shifting up 0.1503% and the A-rated municipal curve up 0.3162% so far this month. The upcoming mid-term elections have added something of an uncertainty premium to the municipal bond market.

Markets are loath to change, and the forecast deceleration of the growth rate has many on edge. In the absence of any real economic peril, naysayers have provided a fall harvest of potential Black Swans over which to fret. Oil markets, despite being in good shape from an inventory and supply perspective, are now haunted by the unknowns of sanctions against Iran, the collapse of Venezuelan production, and the possible impacts from what may come as a result of the investigation into the death of Washington Post reporter Jamal Khashoggi. The emergence of Russia as the integral player in the Persian Gulf has captured the darkest outcome for many. Festering credit issues within China's nonbank financial system, along with news of increasing political crackdowns, have rattled nerves among equity investors in Chinese markets. This, in turn, is contributing to concerns that the impact of global trade will take a back seat to domestic politics. This last point was clearly at work in last Thursday's market decline, as Germany's SAP and Taiwan's Taiwan Semiconductor both reported disappointing results due in large part to weak results in China. News of these two releases sent ripples throughout the technology sector, thus sending U.S. tech stocks down 1.96% on Thursday. With 40% of U.S. companies set to report this week, we should see some of the uncertainty lifting, with a returning focus on the outlook for 2019.

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EQUITIES						S&P 500® SECTORS		
DOMESTIC			INTERNATIONAL				YTD	12MTH
	LEVEL	YTD		LEVEL	YTD			
DJIA	25444.34	2.93%	FTSE 100	7049.8	-8.30%	Energy	1.59%	8.62%
S&P 500®	2767.78	3.52%	HANG SEN	25561.4	-14.57%	Material	-10.81%	-7.75%
S&P 400	1872.17	-1.49%	MSCI EAFE®	1849.37	-7.16%	Cons Disc	9.09%	18.20%
S&P 600	962.06	2.76%	MSCI EMG	971.47	-14.19%	Cons Stpl	-1.89%	4.36%
S&P 100	1236.09	4.47%	NIKKEI	22532.08	-1.02%	Health Care	12.21%	10.95%
						Comm Serv.	-3.58%	3.60%
						Financials	-3.22%	1.92%
						Technology	12.18%	17.68%
						Industrial	-2.10%	1.15%
						Utilities	6.45%	3.08%
COMMODITIES			CURRENCIES			KEY INTEREST RATES		
	LEVEL	YTD		LEVEL	YTD			
Gold	1227.92	-5.75%	MXN/DLR	19.2723	2.01%	LIBOR OVERNIGHT		2.1711%
Silver	14.66	-13.44%	DLR/EUR	1.1515	-4.08%	LIBOR 3 MONTH		2.4772%
WTI	69.29	14.68%	DLR/GB	1.307	-3.28%			
Gasoline	1.91	6.39%	RMB/DLR	6.929	-6.09%			
Nat Gas	3.20	8.40%	CDN/DLR	1.3103	-4.06%			

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NOTE: IMPORTANT INFORMATION

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