

# Weekly Market Overview

November 5, 2018



*Peter Sorrentino, Chief Investment Officer, Comerica Asset Management*

Last week, the cyclical stocks enjoyed a substantial upward repricing, led by a 6.1% gain among the materials stocks, followed by 4.4% gains for both the financial and consumer discretion sectors. The only stocks to lose ground last week were the interest-rate-sensitive utility stocks in response to a rebound in interest rates that brought the yield on the ten-year Treasury note back over 3.2%. The snap back in interest rates also pushed value stocks ahead of growth in the performance derby between the two competing approaches. By Friday's close, the Russell 1000 Value Index added 3.02% to the 2.29% gained by the Russell 1000 Growth Index. With risk back in vogue, the MSCI Emerging Market Index recovered 6.08%, while the MSCI EAFE® Index was up 3.33%. With the value of the dollar largely unchanged last week, these gains were the result of capital flows back into those markets. Commodity prices were a study in contrast, as crude oil continued to suffer, falling 6.6%. On the other hand, agricultural prices rose last week, with the cost of soybeans increasing 3.5%. Industrial metals were mixed, with copper up 2%, while ferrous metals fell slightly. The CBOE VIX, the commonly-cited measure of market volatility, fell from a recent high of 25. It remains at an elevated level of 20, indicating that while last week's rebound was enjoyable, it should not be taken as an 'all clear' by investors.

So, what changed last week? With over 70% of companies having reported third quarter earnings, the inescapable reality is that both third quarter and fourth quarter revisions are running significantly better than the historic trend line. In plain English, that translates to analysts were seemingly not optimistic enough, and corporate results are coming in better than estimated. As a result, analysts are taking the numbers for the balance of the year up. This then carries over into the outlook for 2019, pushing those numbers up and building the valuation case for stock prices to recover some of the recently lost ground. Investors were pricing in an imminent downturn in the business cycle that no longer appears to be quite so imminent.

Not to be overlooked, and just as important, was Thursday's release of productivity and labor costs by the Bureau of Labor Statistics. One of the unique features of this recovery has been the very low level of productivity growth, which manifested itself in falling profit margins. Corporate profit margins turned up at the end of Q2 2017, after falling for six quarters, but the official productivity numbers remained largely flatlined. Thursday's release represented a change in the right direction, with third quarter posting a 2.2% seasonally-adjusted annual rate of increase for the nonfarm economy overall. Manufacturing is still somewhat anemic at only an 0.5% gain; this may be another timing-related lag. Equally important is the fact that the Employment Cost Index, or ECI, rose only 1.2% for the same period. The reason this is so important is that so long as productivity growth exceeds the rate of labor inflation, you can have as much inflation as you want, and the results are benign. This condition was the hallmark of the 1990's expansion, the longest on record. Intuitively, it follows that so long as you receive a greater level of output from each unit of input, the cost of the input is effectively irrelevant. So, wages rise, and profits rise, thus, supporting higher equity prices.

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EQUITIES						S&P 500 <sup>®</sup> SECTORS		
DOMESTIC			INTERNATIONAL				<u>YTD</u>	<u>12MTH</u>
	<u>LEVEL</u>	<u>YTD</u>		<u>LEVEL</u>	<u>YTD</u>			
DJIA	25270.83	2.23%	FTSE 100	7094.12	-7.72%	Energy	-3.92%	1.49%
S&P 500 <sup>®</sup>	2723.06	1.85%	HANG SEN	26486.35	-11.50%	Material	-9.57%	-6.62%
S&P 400	186.4	-2.01%	MSCI EAFE <sup>®</sup>	1837.05	-7.74%	Cons Disc	9.86%	18.60%
S&P 600	973.43	3.97%	MSCI EMG	996.72	-11.90%	Cons Stpl	-0.91%	6.88%
S&P 100	1210.74	2.33%	NIKKEI	22243.66	-2.73%	Health Care	9.53%	11.36%
						Comm Serv.	-5.68%	7.46%
						Financials	-4.16%	0.35%
						Technology	10.22%	10.36%
						Industrial	-5.13%	-0.01%
						Utilities	3.65%	-0.26%
COMMODITIES			CURRENCIES			KEY INTEREST RATES		
	<u>LEVEL</u>	<u>YTD</u>		<u>LEVEL</u>	<u>YTD</u>			
Gold	1232.89	-5.37%	MXN/DLR	20.0141	-1.77%	LIBOR OVERNIGHT		2.1746%
Silver	14.71	-13.12%	DLR/EUR	1.1388	-5.14%	LIBOR 3 MONTH		2.5924%
WTI	63.14	4.50%	DLR/GB	1.2979	-6.16%			
Gasoline	1.71	-5.05%	RMB/DLR	6.8907	-5.57%			
Nat Gas	3.28	11.21%	CDN/DLR	1.311	-4.11%			

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## **NOTE: IMPORTANT INFORMATION**

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