

Weekly Market Overview

December 10, 2018



Peter Sorrentino, Chief Investment Officer, Comerica Asset Management

Last week was a case of the meek inheriting the earth, or at least market leadership. Shares of the major utility companies were a rare bright spot, advancing 3.07% last week, as falling interest rates and stock prices in general sent investors in search of comparative calm. The flattening of the term structure of interest rates, or the yield curve, dimmed the prospects for lenders, while falling share prices dampened investor enthusiasm for asset management companies. These two groups comprise most of the financial services sector, leading to its loss of 6.41% last week. The lack of follow through on trade and growing concern over the economic health of Europe continued to haunt the industrial and materials stocks, dragging the two down 5.3% and 4.7%, respectively. By Friday's closing bell, it mattered little if your portfolio was growth or value, as both fell about 3.5%. Size was a factor last week, and with the volume of selling putting a premium on liquidity, price declines grew in inverse proportion to a company's capitalization. In other asset classes, we experienced positive returns for commodities, as energy and precious metals gained over 3%, while prices for grains picked up 2%. Livestock and industrial metal prices were largely unchanged last week. International and emerging markets were not immune to last week's declines, but they suffered far smaller declines with the MSCI EAFE® Index off 2.27%, while the MSCI Emerging Market Index slipped 1.24%.

Financial markets are supposed to be efficient and all-knowing, so for those of us who are students of the market, it seems that there is something of a generational amnesia that occurs. Case in point being the similarities between 2018 and 1994. Not a perfect correlation to be sure, but to quote Samuel Clemens, it does rhyme. In Exhibits 1-4, I have plotted out the shift in the yield curve from both years, and we see the familiar flattening of the curve through the year due, in large part, to the shifting up of short term rates. The impact on equity prices, too, appears to be together with volatility – a hallmark for both periods. Here's the thing, if inverted yield curves and market corrections are harbingers of recessions, how is it that GDP growth in 1995 was 2.7% and 3.8% in 1996? Could we have a recession in the U.S.? Of course, we can. There are plenty of external shocks that could impact us. But the prospects of a self-inflicted one remain fairly contained. For the moment, the outperformance of health care and utility stocks informs us that most investors are fearful, and what was it Warren Buffet said about others being fearful?

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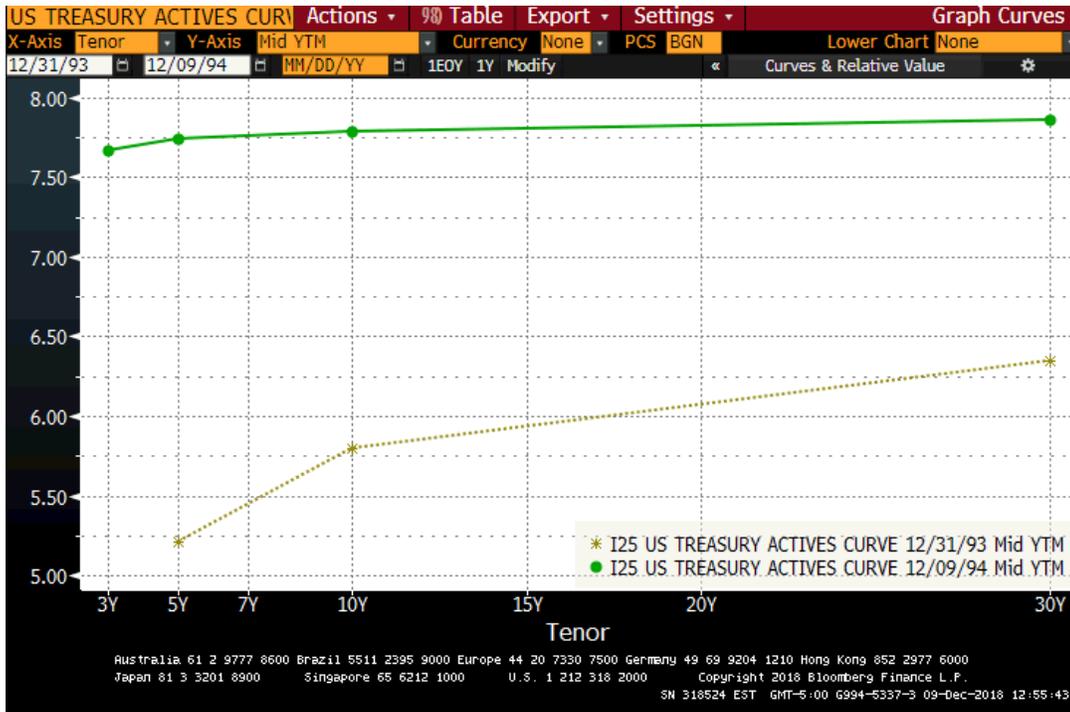


Exhibit 1 (Source: Bloomberg)

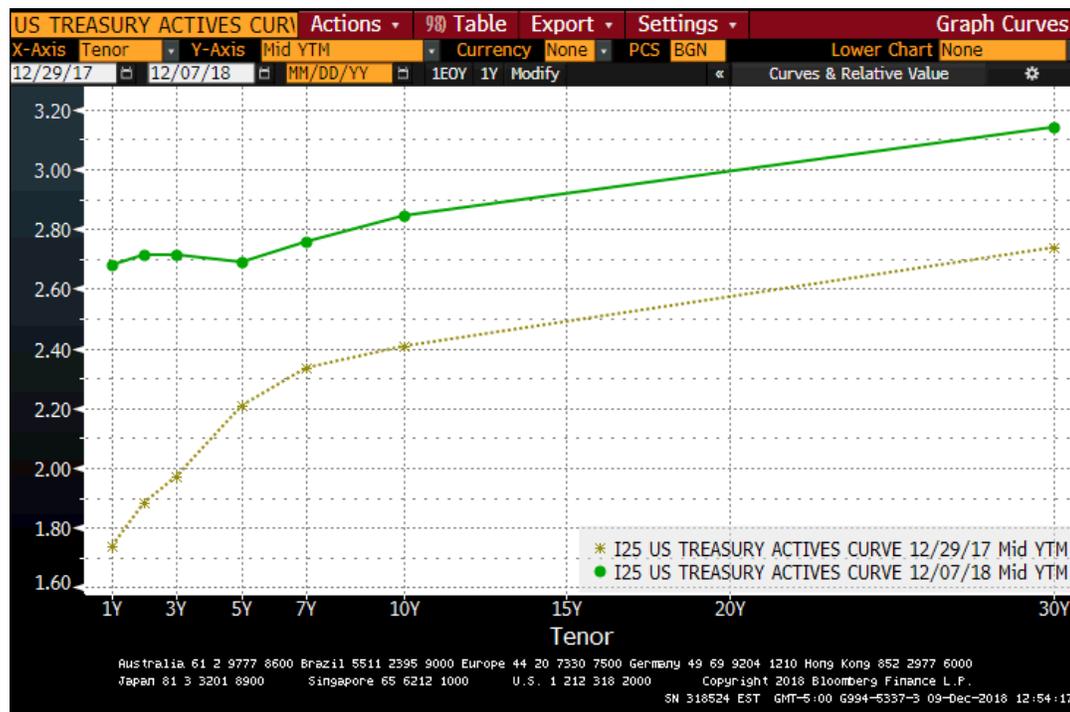


Exhibit 2 (Source: Bloomberg)

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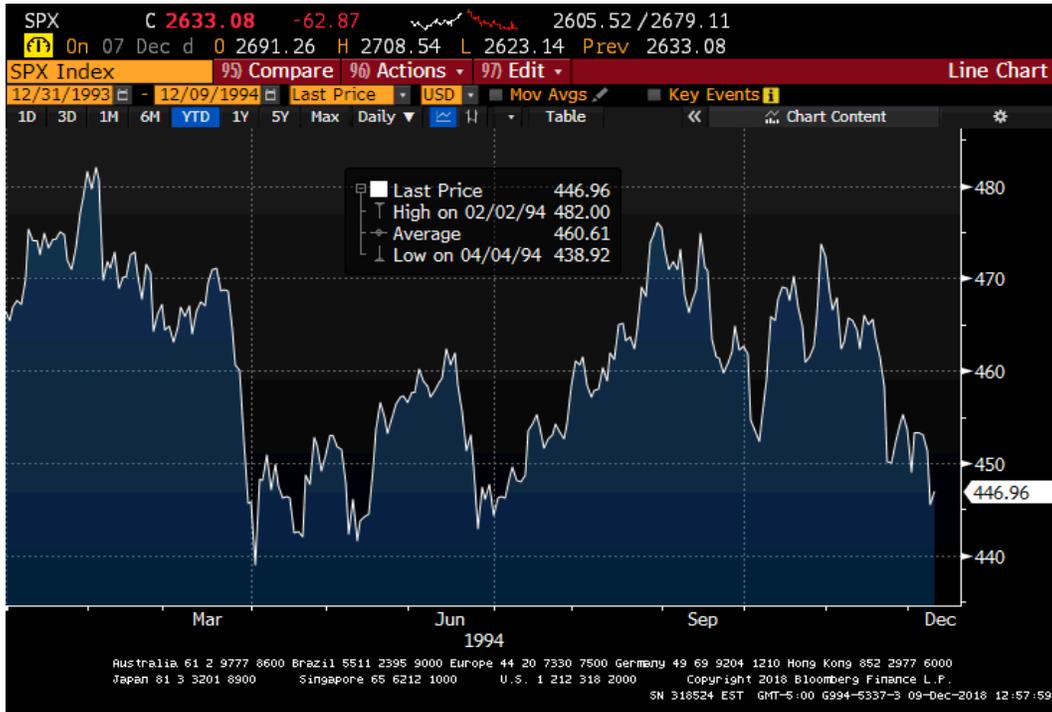


Exhibit 3 (Source: Bloomberg)



Exhibit 4 (Source: Bloomberg)

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EQUITIES					S&P 500 [®] SECTORS			
DOMESTIC			INTERNATIONAL				<u>YTD</u>	<u>12MTH</u>
	<u>LEVEL</u>	<u>YTD</u>		<u>LEVEL</u>	<u>YTD</u>			
DJIA	24388.95	-1.34%	FTSE 100	6778.11	16.92%	Energy	-9.02%	-4.79%
S&P 500 [®]	2633.08	-1.52%	HANG SEN	26063.67	-12.91%	Material	-13.08%	-11.19%
S&P 400	1780.94	-6.29%	MSCI EAFE [®]	1768.48	10.97%	Cons Disc	5.43%	7.28%
S&P 600	607.27	-1.89%	MSCI EMG	981.37	-13.19%	Cons Stpl	-2.17%	-0.93%
S&P 100	1167.57	-1.32%	NIKKEI	21678.68	-4.77%	Health Care	11.12%	11.05%
						Comm Serv.	-9.48%	-4.90%
						Financials	-8.84%	-8.70%
						Technology	3.43%	3.94%
						Industrial	-8.99%	-7.47%
						Utilities	10.08%	4.69%
COMMODITIES			CURRENCIES			KEY INTEREST RATES		
	<u>LEVEL</u>	<u>YTD</u>		<u>LEVEL</u>	<u>YTD</u>			
Gold	1249.31	-4.11%	MXN/DLR	20.2604	-2.97%	LIBOR OVERNIGHT		2.1809%
Silver	14.63	-13.65%	DLR/EUR	1.1379	-5.21%	LIBOR 3 MONTH		2.7711%
WTI	52.61	-12.93%	DLR/GB	1.2726	-5.82%			
Gasoline	1.49	-7.78%	RMB/DLR	6.8743	-5.35%			
Nat Gas	4.49	51.98%	CDN/DLR	1.3322	-5.67%			

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NOTE: IMPORTANT INFORMATION

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