Weekly Market Overview

December 17, 2018

Comerica Wealth Management

Peter Sorrentino, Chief Investment Officer, Comerica Asset Management

There was an air of capitulation in the market last week, as witnessed by the 3.5% decline in the financial sector and the 3.1% decline in energy shares. The growing consensus that the Federal Reserve Bank will alter its approach to monetary policy in 2019, and that OPEC is under new management in the person of Vladimir Putin, likely led investors to abandon the hope for both higher interest rates and crude oil prices. The shift to a defensive posture favoring utilities, now both electric and telecommunications, enabled those two sectors to post slight gains for the week of 0.64% and 0.48%, respectively. For the balance of the market, there were two clear biases as large and growth easily edged out small and value. In the size classification, it was the Russell 1000 Index falling 1.3% to the -2.5% posted by the Russell 2000® Index. In the value versus growth contest, the Russell 1000 Value Index lost 1.8% to the -0.7% registered by the Russell 1000 Growth Index. For the second week in a row, global share prices fared better than the domestic front as the MSCI EAFE® Index fell just 0.9%, while the MSCI Emerging Market Index lost 1%. In commodities, apart from wheat, corn and livestock, prices for energy, and industrial and precious metals all fell. The headline regarding China's purchase of soybeans fell short of expectations sending them down instead, which is likely why livestock prices were up. Interest rates continue to nudge higher on the short end of the term structure, while the longer-dated rates continue to retreat from the November 8th peak.

The impact of interest rates on the stock market this year has been profound, but not in the classical equities versus debt asset class struggle. No, instead, interest rates are being relied upon as an indicator of future growth and economic health. As illustrated in the first exhibit, stocks did not suffer this year from rising rates. In fact, investors pointed to it as confirmation the economy was healthy and growing. Shares of smaller companies, represented by the Russell 2000® Index, assumed leadership of the market into the summer. As the rise in rates began to falter in recent months, the impact was dramatic and widespread as investors abandoned not only the emerging stock leadership, but equities in general. While the path of least resistance would be to adopt this consensus view, there is a clear and immediate contradiction before us. In the second exhibit, you can see the monthly net issuance of U.S. government debt. This includes Treasury and Agency issuance. There is a seasonal pattern, as each spring, the influx of tax receipts diminishes the government's need to borrow. In addition, you can clearly see the impact of the financial crisis on debt issuance as the authorities sought to provide liquidity to the markets and boost economic activity. Note at the far right of the graph (Exhibit 2), the frequency at which the monthly issuance has reached or exceeded $200 billion. Projections for 2019 and 2020 call for that to become not the exception, but the baseline. Unless somewhere along the line, the law of supply and demand was repealed, I must believe that rates are going to continue to ratchet higher. The question then will be if this is still good for stocks.

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Exhibit 1 (Source: Bloomberg)

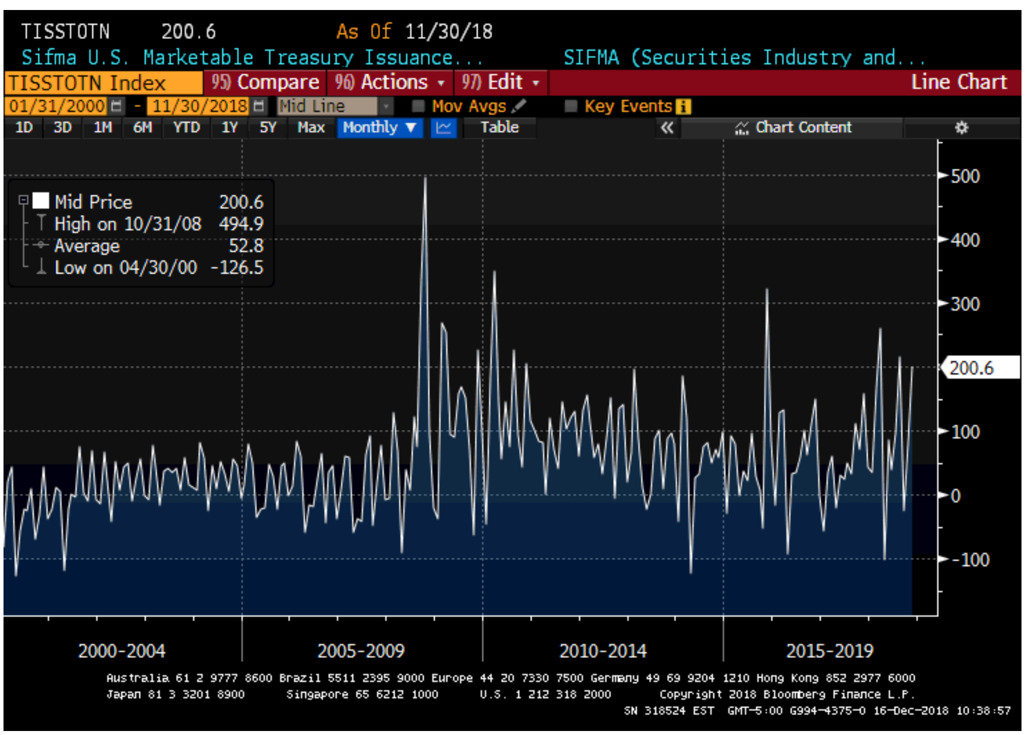

Exhibit 2 (Source: Bloomberg)

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EQUITIES						S&P 500® SECTORS		
DOMESTIC			INTERNATIONAL				YTD	12MTH
	LEVEL	YTD		LEVEL	YTD	Energy	-11.94%	-7.76%
DJIA	24100.51	-2.50%	FTSE 100	6845.17	-16.88%	Material	-13.99%	-11.95%
S&P 500®	2599.95	-2.76%	HANG SEN	26094.79	-12.78%	Cons Disc	4.18%	4.81%
S&P 400	1732.81	-8.83%	MSCI EAFE®	1752.74	-11.76%	Cons Stpl	-2.71%	-2.69%
S&P 600	878.11	-6.21%	MSCI EMG	971.9	-14.01%	Health Care	9.14%	7.67%
S&P 100	1153.59	-2.50%	NIKKEI	21374.83	-6.69%	Comm Serv.	-9.02%	-8.10%
						Financials	-12.04%	-11.80%
COMMODITIES			CURRENCIES			Technology	3.44%	2.14%
	LEVEL	YTD		LEVEL	YTD	Industrial	-10.34%	-9.15%
Gold	1239.02	-4.90%	MXN/DLR	20.2374	-2.86%	Utilities	10.83%	6.02%
Silver	14.58	-13.91%	DLR/EUR	1.1306	-5.82%			
WTI	51.20	-15.26%	DLR/GB	1.2583	-6.88%	KEY INTEREST RATES		
Gasoline	1.43	-20.28%	RMB/DLR	6.9076	-5.80%	LIBOR OVERNIGHT		2.1848%
Nat Gas	3.83	29.60%	CDN/DLR	1.3384	-6.07%	LIBOR 3 MONTH		2.8007%

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NOTE: IMPORTANT INFORMATION

Unless otherwise noted, all statistics herein obtained from Bloomberg.

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