Weekly Market Overview

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Comerica Wealth Management

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Investors let the good times roll last week. Fears of a drop off in U.S. – make that global – business activity subsided as earnings season got underway, and economic data from the closing months of 2018 began to filter out. In the face of a crushing defeat for Theresa May's Brexit proposal and a recession near miss for German GDP, both the UK and German markets scored gains last week sufficient to push the MSCI EAFE® Index up 1.06%. Emerging markets were not to be denied as they joined in to add 1.7% last week, aided by a slightly weaker dollar that served to offset the rise in the price of crude oil, up 3.7%. In the U.S. market, the strongest driver of results were financials, banks in particular. Recall from last week's update that financials had been on the sidelines of the current rally this year as investors were wary of how the pull back in interest rates may have impacted earnings. Those concerns appear to have been overblown, as results thus far have shown that loan growth has been better than expected with widening net interest margins. It appears that banks have been able to win back customers from the nonbank lenders. This realization enabled the financials to advance 6.12% for the week, again, due in large part to the 7.7% rally by bank shares. Taking second place last week were shares of the industrial sector, with a gain of 3.42%. The industrials were propelled by a 5%+ rally among the transportation stocks, with rails, airlines, truckers and those that build and supply the equipment rejoining the market advance. Interest rates rose fractionally last week, as the rally drew back some investors that fled last year's stock market decline. The ebbing of the fear trade was evident in commodity prices, too, as precious metal prices slipped another 1%, while energy added another 4.3%, agricultural prices another 2%, and industrial metals added 1.9%. Last week, neither company size nor investment style could claim any notable victory as the scope of the capital flow was sufficient to lift the overall market by slightly better than 2%.

Returning to the theme of defensive investing, this week will feature yet another possible catalyst for widening credit spreads in the U.S. bond market. In previous notes, I delineated the magnitude of the upcoming debt refinancing confronting the corporate bond market. In this note, I will add another player into the mix – China. Chinese corporations have just over $3 trillion in dollar denominated debt, 62% of which is short-term and, of that, roughly $1.2 trillion will roll over this year. That number may be a bit conservative as some Chinese corporate entities have taken a page from their U.S. counterparts and issued debt through offshore subsidiaries, so it may be more on the order of $1.5 trillion. To put that into perspective, China's total foreign currency reserves are $3 trillion. All that is just to say that there will be a large volume of debt coming to market this year, and it will all have to compete with the growing volume of U.S. Treasury auctions. Will supply overwhelm demand? The growing interest rate spread appears to be flashing a warning. In Exhibit 1, you can see the growing risk premium building into the credit market, as over the last year, the spread has widened by half. With the yield on short-term obligations having risen dramatically in the last two years, the price for shortening up portfolios is relatively low, so it only costs a bit of current income to safeguard principal.

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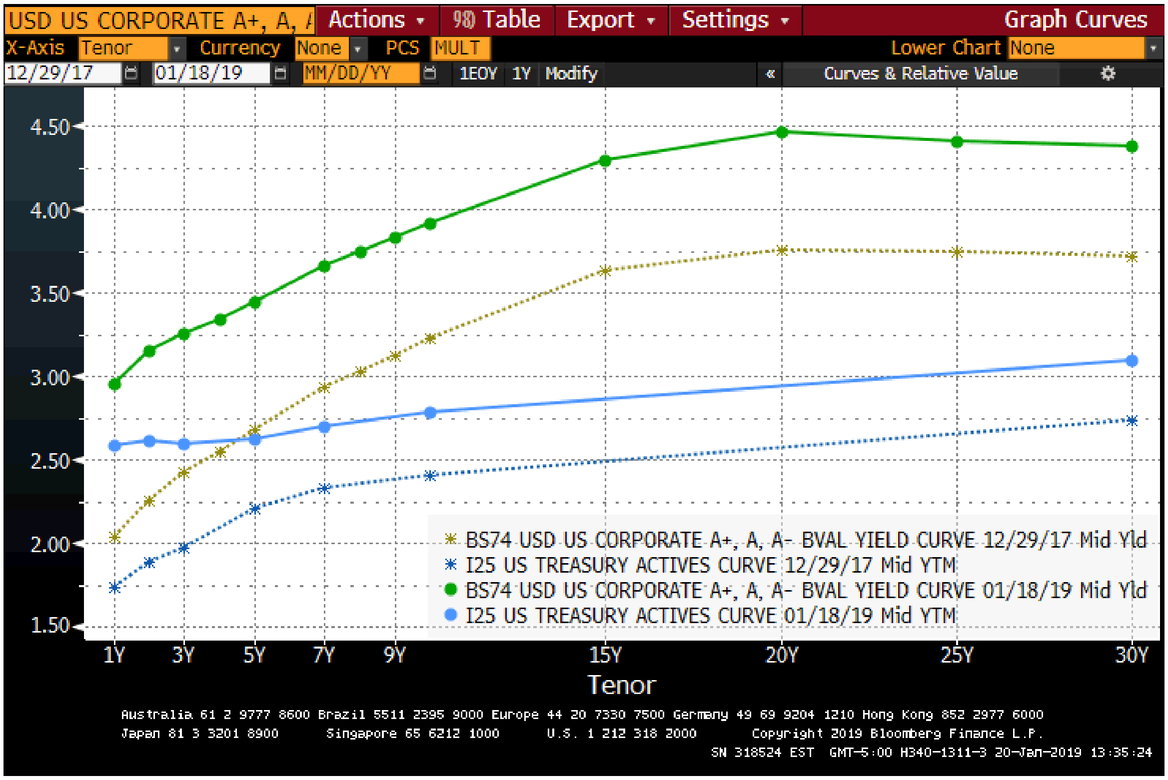

Exhibit 1 (Source: Bloomberg)

EQUITIES						S&P 500® SECTORS		
DOMESTIC			**INTERNATIONAL**				**YTD**	**12MTH**
	LEVEL	**YTD**		**LEVEL**	**YTD**	Energy	11.21%	-13.97%
DJIA	24706.35	5.91%	FTSE 100	6968.33	4.53%	Material	5.82%	-13.79%
S&P 500®	2670.71	6.54%	HANG SEN	27090.81	4.66%	Cons Disc	8.42%	2.04%
S&P 400®	1817.25	9.27%	MSCI EAFE®	1805.1	5.04%	Cons Stpl	3.31%	-7.24%
S&P 600®	924.28	9.39%	MSCI EMG	1017.99	5.45%	Health Care	4.25%	3.67%
S&P 100®	1181.55	6.08%	NIKKEI	20666.07	3.17%	Comm Serv.	8.20%	-3.65%
						Financials	9.16%	-10.29%
COMMODITIES			**CURRENCIES**			Technology	5.42%	-1.53%
	LEVEL	**YTD**		**LEVEL**	**YTD**	Industrial	8.90%	-10.30%
Gold	1281.75	-0.06%	MXN/DLR	19.0977	2.89%	Utilities	0.43%	10.11%
Silver	15.34	-0.98%	DLR/EUR	1.1363	-0.91%			
WTI	53.80	18.48%	DLR/GB	1.2872	0.93%	**KEY INTEREST RATES**		
Gasoline	1.45	9.75%	RMB/DLR	1.493	6.78%	LIBOR OVERNIGHT		2.3839%
Nat Gas	3.48	18.44%	CDN/DLR	1.326	2.84%	LIBOR 3 MONTH		2.7610%

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NOTE: IMPORTANT INFORMATION

Unless otherwise noted, all statistics herein obtained from Bloomberg.

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