Weekly Market Overview

January 28, 2019

Comerica Wealth Management

Peter Sorrentino, Chief Investment Officer, Comerica Asset Management

Globally, equity markets resumed the new year recovery last week, with developed markets, represented by the MSCI EAFE® Index, picking up 0.47%, while the U.S. equity market, as measured by the Russell 3000® Index, tacked on 1.15%. Taking top honors last week were the MSCI Emerging Markets, as that index posted a 1.41% advance, bringing it to parity with the U.S. market at +6.9% so far this year. Themes for the U.S. market were mixed as earnings reporting season continues to unfold. Reports delivered during the period enabled technology stocks to lead the way with a gain of 2.42%. This served to drive the Russell 1000® Growth Index up 1.3%, while, despite the 1.73% gain for both the industrial and financial service stocks, the Russell 1000® Value Index was only able to post a 0.97% gain. Consumer staples, health care and communication service stocks slipped fractionally last week with losses of 0.19%, 0.11% and 0.02%, respectively. Those declines are attributable to a mix of modestly-disappointing earnings reports and higher interest rates. On the subject of interest rates, bond yields finished the week slightly higher thanks to the potential inflation implications of rising commodity prices. U.S. grain and livestock prices gained, on average, just over 1%, while energy prices picked up 3% on forecasts calling for a plunge in temperatures across much of North America.

The current economic expansion, on its way to becoming the longest on record, already holds another distinction – it is the weakest on record. Comerica's Chief Economist, Dr. Robert Dye, has done a great job of illustrating how this came to be, thanks largely to the availability of relatively low-cost labor post-recession. During past post-war expansions, we have experienced a substitution of capital for labor as rising labor cost made paramount the quest for ever greater productivity to justify the addition of an incremental unit of labor. The impact on wages during the Great Recession was sufficient to reverse this substitution. Coupled with the affordability of labor was the magnitude of idle industrial capacity attributable to overbuilding during the previous cycle. I have covered in earlier commentaries the use of not only earnings, but the wholesale leveraging of corporate America to reduce share counts to push stock prices. The problem now confronting us is that any debt which is not self-funding is simply future consumption brought forward. The possible implication of which is that in extending this advance by the means employed, we are impairing the next recovery. By extension, this implies we are currently enjoying future consumption now, thus depriving the future of it. Bottom line is, the next recovery may be even weaker than this one. If you wonder what that looks like, look at Exhibit 1 for Japanese GDP in constant dollar terms, which has sort of flatlined since 1994. In Exhibit 2, you will find Japan's debt-to-GDP ratio. While the U.S. is not yet at that level (currently at 82.3%), our trendline offers little comfort.

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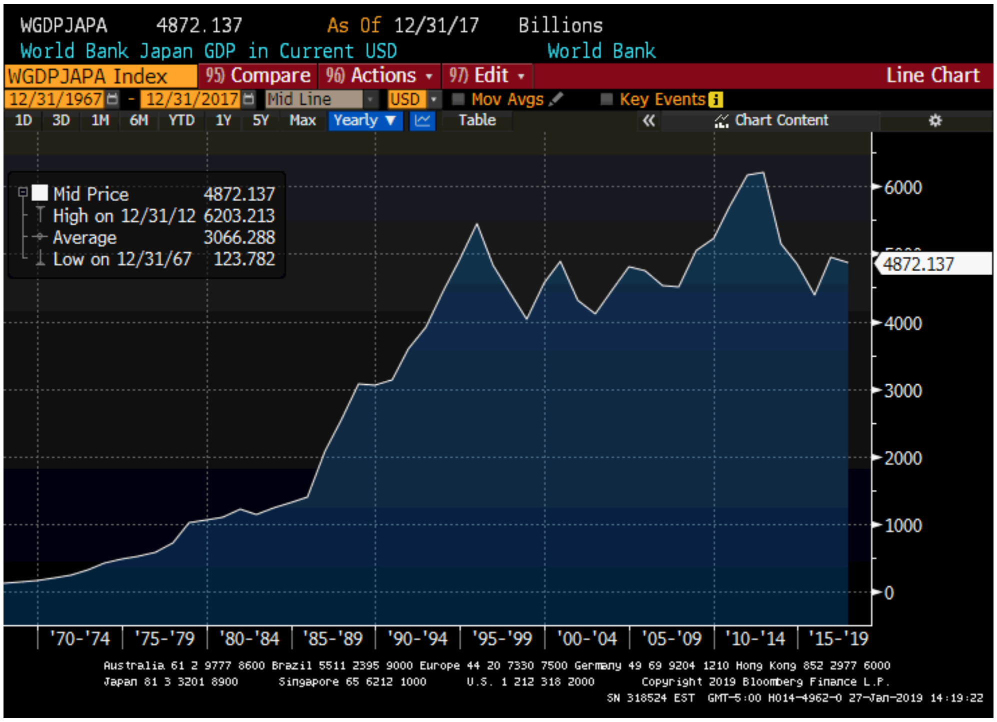

Exhibit 1 (Source: Bloomberg)

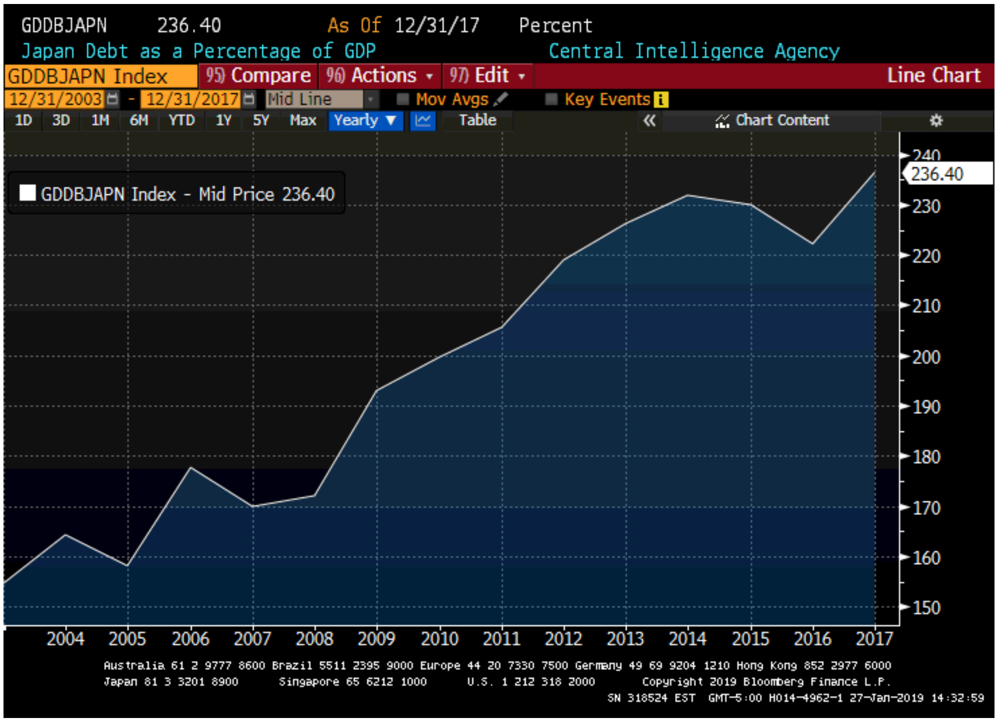

Exhibit 2 (Source: Bloomberg)

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EQUITIES						S&P 500® SECTORS		
DOMESTIC			INTERNATIONAL				YTD	12MTH
	LEVEL	YTD		LEVEL	YTD	Energy	9.63%	-16.47%
DJIA	24737.2	6.04%	FTSE 100	6809.22	5.39%	Material	5.09%	-15.44%
S&P 500®	2664.76	9.35%	HANG SEN	27569.19	3.79%	Cons Disc	8.42%	-1.16%
S&P 400®	1818.57	9.24%	MSCI EAFE®	1813.63	-14.14%	Cons Stpl	1.91%	-9.55%
S&P 600®	922.98	9.24%	MSCI EMG	1032.34	-16.77%	Health Care	2.91%	-1.17%
S&P 100®	1176.11	5.59%	NIKKEI	20773.56	3.79%	Comm Serv.	7.46%	-7.57%
						Financials	9.17%	-12.21%
COMMODITIES			CURRENCIES			Technology	6.46%	-2.49%
	LEVEL	YTD		LEVEL	YTD	Industrial	8.82%	-11.40%
Gold	1303.15	1.61%	MXN/DLR	18.9877	3.49%	Utilities	0.79%	8.27%
Silver	15.75	1.61%	DLR/EUR	1.1406	-0.53%			
WTI	53.69	18.23%	DLR/GB	1.3196	3.47%	KEY INTEREST RATES		
Gasoline	1.39	4.96%	RMB/DLR	6.7483	1.93%	LIBOR OVERNIGHT		2.3848%
Nat Gas	3.18	8.10%	CDN/DLR	1.3218	3.17%	LIBOR 3 MONTH		2.7516%

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NOTE: IMPORTANT INFORMATION

Unless otherwise noted, all statistics herein obtained from Bloomberg.

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