Weekly Market Overview

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Comerica Wealth Management

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January passed the baton to February in style last week, as stock prices manifested concurrent themes. Energy and industrial stocks rallied as one might expect in a late cycle advance, with the former rising 3.11%, while the latter added 2.58%. But with the same degree of conviction, we witnessed a decidedly defensive advance, as telecoms gained 3.07%, along with consumer staples' +2.88% and utilities' +2.3%. Among domestic companies, there was a slight edge in the performance of the large cap names, as the Russell 1000® Index edged out the Russell 2000® Index by a margin of 1.66% to 1.29%, for the year so far. The Russell 2000® Index still retains the lead at +11.38% to the Russell 1000® Index gain of 8.41%. Again, another week of mixed messages as the late cycle theme favors smaller over larger and the defensive theme tilting to larger over smaller. In the growth versus value contest, last week was a draw, as both added 1.7%. Energy prices were mixed, thanks to a series of events starting off with a larger-than-forecast drawdown of gasoline stockpiles that sent the price of regular unleaded up 9.85% last week. This is attributable to additional sanctions against Venezuela whose heavy, high sulfur crude is the feedstock for much of the U.S. Gulf Coast refineries. On the flip side was the 6.63% decline in natural gas prices, as a warm-up was forecast for much of the U.S. great plains and eastern seaboard, reducing heating demand. Elsewhere in commodity prices, we saw copper and iron ore reversing recent declines, while U.S. grain prices surrendered fractional losses, following what had been a constructive start to 2019. Very quietly in the background, even as global markets rise, there is a flight to safety – or risk off bias – in the overall financial market. Evidence of this can be seen in the U.S. Treasury rates where, even in the face of a partial shutdown, the term structure has been pulling back with yields from one to thirty years to where they started the year after edging higher during the month. Despite the back up in energy prices and the 1% gain for the U.S. dollar, both developed and emerging markets posted gains last week as the MSCI EAFE® Index added 1.37%, and the MSCI Emerging Market Index added 1.73%.

As earnings reporting season ends, the most telling change was the number of companies that reported negative surprises and those for whom forward estimates were reduced. This follows 2017 and 2018, where the opposite was true, and analysts were finding they were consistently too conservative in the forward outlook. Some of this was attributable to margin improvements that reversed the decline experienced in 2015 and 2016. This points out the complexity and limitations of forecasting as the interactions of multiple variables in a complex system can produce unforeseen results. It was this shortcoming that led to a study by the CFA Institute that was published in the early 1990s. The authors looked retrospectively at company stock prices versus the underlying economic value of the enterprise. What the study concluded after looking at forty years' worth of data, was that roughly 20% of the time, the price of a company was roughly comparable to its economic value; the balance of the time, the share price was either below or above the economic value. On a graph, it looked like a sine wave with roughly an equal distribution of time above and below the gradually upward sloping band that represented the economic value. While we can see this clearly in the rearview mirror, the ability to do so looking forward continues to elude us. The lesson in all of this is that despite advances in financial analysis and market simulation, much of the time, the market is either too cheap or too expensive. Given the rather spectacular failures in attempts to time the market or create portfolio insurance, the best course of action is to be appropriately invested based upon your financial objectives and risk tolerance. Price matters primarily on two occasions – when you buy and when you sell.

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EQUITIES						S&P 500® SECTORS		
DOMESTIC			INTERNATIONAL				YTD	12MTH
	LEVEL	YTD		LEVEL	YTD	Energy	13.16%	-7.90%
DJIA	25063.89	7.44%	FTSE 100	7020.22	7.00%	Material	5.97%	-9.64%
S&P 500®	2706.53	7.97%	HANG SEN	27930.64	7.88%	Cons Disc	8.34%	1.90%
S&P 400®	1841.52	10.73%	MSCI EAFE®	1830.04	6.55%	Cons Stpl	4.91%	-3.25%
S&P 600®	933.58	10.49%	MSCI EMG	1050.2	8.79%	Health Care	5.08%	6.23%
S&P 100®	1191.67	6.98%	NIKKEI	20878.2	4.48%	Comm Serv.	10.00%	-4.17%
						Financials	9.49%	-9.53%
COMMODITIES			CURRENCIES			Technology	7.61%	2.77%
	LEVEL	YTD		LEVEL	YTD	Industrial	11.65%	-6.04%
Gold	1317.52	2.73%	MXN/DLR	19.102	2.87%	Utilities	3.12%	13.34%
Silver	15.93	2.77%	DLR/EUR	1.1459	-0.07%			
WTI	55.31	21.80%	DLR/GB	1.3083	2.57%	KEY INTEREST RATES		
Gasoline	1.46	10.62%	RMB/DLR	6.7422	2.02%	LIBOR OVERNIGHT		2.3740%
Nat Gas	2.72	-7.62%	CDN/DLR	1.309	4.18%	LIBOR 3 MONTH		2.7326%

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NOTE: IMPORTANT INFORMATION