Weekly Market Overview

February 11, 2019

Comerica Wealth Management

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The first full week of February was filled with contrasts, as the performance gap between the top and bottom grew to five full percentage points, with utility shares gaining 2.07%, compared to the 3.01% drop in energy shares. The 4.6% drop in the price per barrel of West Texas Intermediate crude oil served as the catalyst for the weakness in energy-related stocks. Rounding out the top three performers for the week were technology (+1.98%) and industrials (+1.66%) – both managing to hold on to those gains after a very volatile week, fueled first by optimism and then disappointment at the prospect of a trade deal with China before the March 1st implementation of the next round of tariffs between the world's two largest economies. Filling out the bottom two slots last week were shares of materials and financial service companies, as the previous week's negatively-revised global economic outlook continued to weigh on those groups. For all the lingering gloom, U.S. equity markets managed to buck the global trend and finish the week fractionally, but broadly, higher. For the week, it was mid-cap stocks with a gain of 0.76% taking top honors, followed by Blue Chips, with a gain of 0.15%, leaving small caps to round out the market with a positive 0.11% gain. This contrasts with the losses posted by both the developed MSCI EAFE® Index (-1.38%) and the MSCI Emerging Market Index (-1.35%). Despite having utilities and industrials taking the number one and three slots this week, the gravitational mass of the technology sector managed to push growth over value in the style race last week. Commodity prices were once again mixed, thanks to the decline in energy prices that offset smaller gains for industrial metals (+1.16%) and agriculture (+1.97%). The yield curve for U.S. Treasury debt shifted down in parallel fashion, roughly 5 basis points across the term structure last week, thanks to strong demand. Investors are continuing to take shelter from the equity market in the face of what they perceive as a rising tide of uncertainty.

We have previously covered the importance of capital spending and its impact on future profits. This past year was a prime example, as capital expenditures jumped by 16% in 2018, after registering only a 10% gain during 2017. As companies have reported fourth quarter and full-year 2018 results, the picture of capital spending for 2019 has come into sharper focus. The current consensus on Cap-Ex for this year has fallen to just a 9.8% advance over 2018. Generally, in the later stage of the business cycle, we see equipment replacements and capacity expansions driving business spending. In addition to those historic forces, this cycle has experienced relatively low productivity growth. In the context of a tight labor market, this creates another compelling incentive for businesses to invest in themselves. The most recent Future Business Activity Survey – released by the Philadelphia Federal Reserve Bank – has some interesting insights. Of the companies surveyed, 46% see increasing demand in 2019, and fully 65% expect to produce more in the first quarter of 2019 than they did in the same period last year. Here is where it gets interesting. When asked how they would produce more, 36% said they would schedule more hours for existing workers, 33% said they would hire more workers and 24% indicated they would spend on enhancing productivity. As our Chief Economist, Dr. Robert Dye, has highlighted in his work, the supply of labor has tightened to the point that most employers must now resort to hiring talent away from another firm, if you can find it. Given the job market, those being asked to work more hours may be more inclined to jump ship, thus, creating a revolving employment door that not only raises cost, but undermines morale and overall productivity. The need for greater Cap-Ex remains, and the question now is, how long will businesses be able to hold off before conditions become critical? We continue to believe that rising business spending will be the next leg of this economy's journey.

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EQUITIES						S&P 500® SECTORS		
DOMESTIC			**INTERNATIONAL**					
	LEVEL	**YTD**		**LEVEL**	**YTD**		**YTD**	**12MTH**
DJIA	25106.33	7.64%	FTSE 100	7071.18	6.64%	Energy	9.83%	-2.68%
S&P 500®	2707.88	8.02%	HANG SEN	27946.32	7.91%	Material	4.33%	-7.90%
S&P 400®	1852.45	11.39%	MSCI EAFE®	1804.73	5.08%	Cons Disc	8.03%	6.47%
S&P 600®	934.59	10.61%	MSCI EMG	1036.03	7.32%	Cons Stpl	6.11%	3.11%
S&P 100®	1190.16	6.85%	NIKKEI	20333.17	1.55%	Health Care	4.10%	11.52%
						Comm Serv.	9.63%	1.32%
						Financials	7.85%	-5.41%
COMMODITIES			**CURRENCIES**			Technology	9.66%	9.46%
	LEVEL	**YTD**		**LEVEL**	**YTD**	Industrial	13.42%	0.88%
Gold	1314.50	2.50%	MXN/DLR	19.07	3.07%	Utilities	5.27%	18.86%
Silver	15.84	2.21%	DLR/EUR	1.1323	-1.26%			
WTI	52.72	16.10%	DLR/GB	1.2944	1.49%	**KEY INTEREST RATES**		
Gasoline	1.45	9.27%	RMB/DLR	6.7451	1.98%	LIBOR OVERNIGHT		2.3858%
Nat Gas	2.58	-12.14%	CDN/DLR	1.3278	-1.92%	LIBOR 3 MONTH		2.6978%

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NOTE: IMPORTANT INFORMATION

Unless otherwise noted, all statistics herein obtained from Bloomberg.

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