Weekly Market Overview

February 25, 2019

Comerica Wealth Management

Peter Sorrentino, Chief Investment Officer, Comerica Asset Management

In market action last week, we witnessed a continuation of the recovery rally in the cyclical stocks, as materials led the market with a 3.78% gain, followed by utilities (up 2.72%), technology (up 2.27%) and financials (up 2.24%). Apart from the telecommunications stocks, managing only a 0.2% gain, the balance of the market was clustered around the +1% level. The size bias continues to be in favor of smaller companies, as the S&P 600® Index led the way with a gain of 2.72%, versus the larger S&P 500® Index gain of 1.73%. The size bias carried over into global markets as well, as the MSCI Emerging Market Index tacked on 2.272% to the MSCI EAFE® Index gain of 1.58%. The cyclical recovery theme carried over into commodity prices as demonstrated by the 4.69% jump in the price of copper. Agricultural prices were up 2% on average for the week as well. Domestic energy prices surged over 5% last week on news that the U.S. exported over 3.6 million barrels of crude oil a day for the week of February 15th. This puts the U.S. second only to Saudi Arabia in terms of export volume.

On Wednesday afternoon, investors received something of a reprieve from the minutes of the January Federal Reserve Bank meeting. Unlike past episodes of monetary policy tightening, where the Fed raised short-term interest rates and throttled back on money supply growth, this cycle features an actual contraction in the money supply. This contraction, being a function of the central bank, reduces the size of its balance sheet at the rate of $50 billion a month. Recall at the peak in 2015, the Fed's balance sheet had ballooned to $4.7 trillion in assets as a result of the extraordinary measures taken during the financial crisis to provide liquidity to the economy and hold down the cost of funds. The reductions to date have reduced the balance sheet holdings to $4 trillion. While $50 billion sounds like a large number, relative to the size of not only the U.S. economy, but its financial markets as well, this is something of a red herring. Like anyone coming back from a particularly enjoyable vacation, going back to the reality of everyday life can be daunting. Investors who have enjoyed a decade-long holiday from economic reality have criticized the Fed's actions, and it appears the Fed may have blinked. By way of reference, we are now within five months of having the longest U.S. economic expansion in history. The same market that was forecasting a recession last fall is now acting as the harbinger for a manufacturing renaissance. Perhaps, more likely, it simply was off on its timing and magnitude. Our asset allocation anticipates a late cycle expansion of industrial spending, benefitting smaller, more domestically-focused businesses. We experienced a couple of false starts last year in this direction, so we may have been early on timing, but directionally in the right place.

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EQUITIES						S&P 500® SECTORS		
DOMESTIC			INTERNATIONAL				YTD	12MTH
	LEVEL	YTD		LEVEL	YTD	Energy	14.84%	-1.40%
DJIA	26031.81	11.59%	FTSE 100	7178.6	6.70%	Material	10.42%	-7.07%
S&P 500®	2792.67	11.40%	HANG SEN	28816.3	11.26%	Cons Disc	11.94%	5.09%
S&P 400®	1933.72	16.28%	MSCI EAFE®	1869.15	9.00%	Cons Stpl	7.76%	3.52%
S&P 600®	987.29	16.85%	MSCI EMG	1058.65	9.77%	Health Care	7.12%	10.39%
S&P 100®	1225.06	9.98%	NIKKEI	21425.51	6.08%	Comm Serv.	11.48%	3.07%
						Financials	11.11%	-7.33%
COMMODITIES			CURRENCIES			Technology	14.01%	5.45%
	LEVEL	YTD		LEVEL	YTD	Industrial	18.34%	0.97%
Gold	1328.25	3.57%	MXN/DLR	19.1448	2.64%	Utilities	7.84%	17.40%
Silver	15.92	2.76%	DLR/EUR	1.1335	-1.15%			
WTI	57.26	26.10%	DLR/GB	1.3053	2.34%	KEY INTEREST RATES		
Gasoline	1.61	21.39%	RMB/DLR	6.7137	2.46%	LIBOR OVERNIGHT		2.3879%
Nat Gas	2.72	-7.59%	CDN/DLR	1.3135	3.88%	LIBOR 3 MONTH		2.6463%

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NOTE: IMPORTANT INFORMATION

Unless otherwise noted, all statistics herein obtained from Bloomberg.

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