

# Weekly Market Overview

March 11, 2019



*Peter Sorrentino, Chief Investment Officer, Comerica Asset Management*

Investors have adopted a ‘risk-off’ attitude thus far in March, as global equity prices lost just over 2% as money flowed from stocks to bonds last week. The flow into U.S. Treasuries and corporate bonds was enough to send yields down over ten basis points across the coupon segment of the term structure. Domestic equity performance reflected this trend as well, with only shares of utility stocks managing to advance last week with a gain of just 0.74%. Telecommunication and consumer staples, also considered defensive in nature, suffered slight losses of 0.24% and 0.98%, respectively. The bulk of the damage on the downside was experienced by the energy and health care sectors, both falling 3.8%. Tied for third were the financials and industrials, off just over 2.7%. The risk off theme carried over into the size preference as well, with smaller company stocks suffering sharper declines than their larger brethren. The S&P 600<sup>®</sup> Index fell 4.56%, the S&P 400<sup>®</sup> Index fell 3.31%, and the S&P 500<sup>®</sup> Index declined 2.13%. This was somewhat particular to the U.S. market, as globally, the MSCI EAFE<sup>®</sup> and Emerging Market Index declined 2.09% and 2.04%, respectively. The weakness in energy stocks was not directly attributable to energy prices, as both crude oil and natural gas were fractionally higher for the week. Other commodity prices were largely mixed, as weakness in grain prices was offset by continued strength in livestock. Prices for industrial metals were mixed as well, with copper surrendering some of its recent gains, while zinc, steel and nickel gained slightly.

One of our concerns in recent weeks has been the strength of the rebound in stock prices following the selloff late last year. Exhibit 1 shows the magnitude of the downward estimate revisions that fueled investor concerns regarding the sustainability of share prices. The magnitude of the estimate reductions led to an almost 20% decline in equity prices, which is what you would expect because stock prices are supposed to represent the capitalized value of future earnings. If it is anticipated that those earnings will be less than previously forecast, then share prices should decline to reflect that. What is difficult to reconcile has been the extent to which the market rebounded (as illustrated in Exhibit 2) following this episode. Typically, such a decline ushers in a period of consolidation as investors adopt a ‘wait and see’ attitude before venturing back. Instead, up until two weeks ago, we were experiencing a virtual bungee cord rebound in prices, which only now seems to be giving way to a pause. One of my earlier mentors in finance once cautioned that estimate reductions are like roaches – there is never just one of them. So, to the extent we may be in for another round of price volatility while we await the results of the first quarter, it is important to make sure that portfolios are aligned and have not been knocked out of balance by the recent recovery.

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Exhibit 1 (Source: Bloomberg)



Exhibit 2 (Source: Bloomberg)

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EQUITIES						S&P 500 <sup>®</sup> SECTORS		
DOMESTIC			INTERNATIONAL				<u>YTD</u>	<u>12MTH</u>
	<u>LEVEL</u>	<u>YTD</u>		<u>LEVEL</u>	<u>YTD</u>			
DJIA	25450.24	9.10%	FTSE 100	7104.31	7.72%	Energy	11.71%	-3.51%
S&P 500 <sup>®</sup>	2743.07	9.42%	HANG SEN	28228.42	8.97%	Material	8.35%	-8.92%
S&P 400 <sup>®</sup>	1860.28	11.86%	MSCI EAFE <sup>®</sup>	1839.23	7.57%	Cons Disc	9.40%	2.32%
S&P 600 <sup>®</sup>	934.18	10.56%	MSCI EMG	1030.13	6.89%	Cons Stpl	6.73%	2.01%
S&P 100 <sup>®</sup>	1211.04	10.56%	NIKKEI	21025.56	3.65%	Health Care	3.45%	5.07%
						Comm Serv.	12.00%	2.34%
						Financials	9.12%	-10.87%
						Technology	12.69%	0.76%
						Industrial	15.32%	-3.46%
						Utilities	8.81%	20.73%
COMMODITIES			CURRENCIES			KEY INTEREST RATES		
	<u>LEVEL</u>	<u>YTD</u>		<u>LEVEL</u>	<u>YTD</u>			
Gold	1298.40	1.24%	MXN/DLR	19.4925	0.81%	LIBOR OVERNIGHT		2.3869%
Silver	15.34	-1.00%	DLR/EUR	1.1235	-2.02%	LIBOR 3 MONTH		2.5966%
WTI	56.07	23.48%	DLR/GB	1.3015	2.05%			
Gasoline	1.80	36.11%	RMB/DLR	6.7214	2.34%			
Nat Gas	2.87	-2.55%	CDN/DLR	1.3416	1.65%			

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