

Weekly Market Overview

July 29, 2019



Peter Sorrentino, Chief Investment Officer, Comerica Asset Management

- **The NASDAQ Index was the top U.S. index**, posting a 2.3% gain last week. Coming in with a 2% gain was the small-cap Russell 2000® Index. European markets averaged a positive 1%, while in Asia, emerging market declines effectively cancelled out the developed market advances. The 4.8% gain in the Argentine market was not enough to overcome the 2.25% decline in Mexican share prices last week.
- **The Communication Services sector bounced back** from the prior week's Netflix debacle. Thanks to a 9% gain in the shares of Google parent Alphabet, the sector led the way with a 4.3% rise. Google's advance, coupled with Microsoft's 3.6% earnings induced gain, were the principal drivers of the NADAQ's strength. The Financial Services sector squeezed into second place with a 2.7% gain, thanks to earnings-fueled rallies of 7.6% and 4.4%, respectively, for shares of Wells Fargo and Bank of America.
- **The Utilities (-0.7%) and Energy (-0.5%) Sectors were the sole decliners** last week, as the 6% drop in shares of Exelon and the 9% decline in Williams Companies were enough to drag the sectors into negative territory (which, for Energy, came as something of surprise as the price of crude oil rose 1.6%).
- **Crude Oil was the leading commodity last week** with a 1.6% gain, followed by gasoline, up 1.4%. Silver continued its recent rally, adding another 1.2%. Industrial metals surrendered some of the prior week's advance, falling on average 1.7%. Agricultural prices continued to decline, as corn prices fell 3.8%, followed by soybeans at -2%.

The downdraft in forward guidance from the Industrials Sector continued last week as the trade war begins to bite. China appears ready to make good on previously veiled threats against specific U.S. companies. The news regarding the Chinese investigation of FedEx and its handling of Huawei shipments is not a positive for those next in line: Ford, Honeywell and General Dynamics. The market has been increasingly pricing in this potentiality as evidenced in Exhibit 1, which compares the price earnings multiple for the Industrial Sector to that of the broad market. The market is handicapping the likelihood that earnings for Industrials fall short of current forecasts.

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Industrials vs. Broad Market



Exhibit 1 (Source: Bloomberg)

U.S. Equity Themes

While the NASDAQ strength was all about Large-Cap and very much Technology related, the quiet strength was to be found in the Small-Cap stocks, as those earnings reports came in very close to expectations without much drama or negative forward guidance. This reinforces our macro-economic view that there is resilient strength in the U.S. economy that underpins the equity market.

Credit Markets are in a holding pattern awaiting the formal action from the Federal Reserve and the context in which it is couched. As you can see in Exhibit 2, the inversion on at the short end of the term structure continues to gradually abate, while the slight pop higher at the long end has persisted. Both changes are potentially positive developments for the credit market. The inversion's heritage as harbinger of recessions has been hanging over investors like a countdown to Armageddon, while the lack of an upward slope to the yield curve has been a cruel curse upon savers for most of this recovery.

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U.S. Treasury Actives Curve



Exhibit 2 (Source: Bloomberg)

EQUITIES					S&P 500 [®] SECTORS			
DOMESTIC			INTERNATIONAL				YTD	12MTH
	LEVEL	YTD		LEVEL	YTD			
DJIA	27192.45	16.57%	FTSE 100	7549.06	8.91%	Energy	10.82%	-15.75%
Russell 1000 [®]	1677.13	21.16%	NIKKEI	21658.15	9.22%	Material	18.23%	1.74%
Russell 2000 [®]	1578.97	17.09%	HANG SEN	28397.74	10.05%	Cons Disc	26.06%	11.55%
Russell 3000 [®]	1779.48	20.88%	MSCI EAFE [®]	1914.68	14.14%	Cons Stpl	20.96%	16.89%
S&P 500 [®]	3025.86	20.70%	MSCI EMG	1053.11	10.62%	Health Care	7.43%	6.53%
COMMODITIES			CURRENCIES			Comm Serv.	25.92%	18.81%
	LEVEL	YTD		LEVEL	YTD	Financials	21.79%	4.22%
Gold	1418.80	10.63%	MXN/DLR	19.0504	3.15%	Technology	34.30%	16.56%
Silver	16.39	5.80%	DLR/EUR	1.1128	-2.96%	Industrial	23.24%	5.65%
WTI	56.20	23.76%	DLR/GB	1.2384	-2.90%	Utilities	16.25%	18.00%
Gasoline	1.87	41.60%	RMB/DLR	6.8805	-0.29%	KEY INTEREST RATES		
Nat Gas	2.17	-26.22%	CDN/DLR	1.3166	3.58%	LIBOR OVERNIGHT		2.3504%
						LIBOR 3 MONTH		2.2658%

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NOTE: IMPORTANT INFORMATION

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