



WEEKLY MARKET REPORT

May 10, 2019

KEY TAKEAWAYS

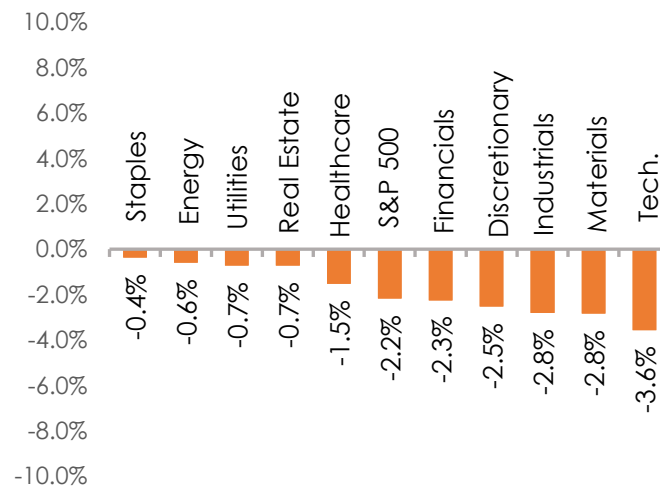
- Markets sold off this week after trade tensions between the U.S. and China intensified. The U.S. raised tariffs on \$200 billion of Chinese goods.
- The European Commission cut their growth forecast for the European economy. Saliiently, they expect Germany to grow only +0.5% (down from +1.1%).
- Defaults in China tripled during the first quarter of this year from the same period last year showing cracks in the Asian giant's credit market.

MARKET WATCH

Change in % pts.	Last	1 Week	MTD	QTD	YTD	12 Months
DJ Industrial Average	25,942.37	-2.12	-2.45	0.05	11.21	4.86
S&P 500	2,881.41	-2.18	-2.19	1.66	14.94	5.81
Nasdaq	7,916.94	-3.03	-2.20	2.43	19.32	6.91
Russell 2000	1569.06	-2.81	-1.42	1.88	16.32	-2.19
Barclays U.S. Agg. Bond Index	2,111.74	0.27	-0.30	-0.30	2.64	4.53
MSCI EAFE	1860.04	-3.06	1.92	1.92	11.14	-5.10
MSCI Emerging Markets	1028.40	-5.02	-4.71	-2.81	6.48	-11.08
WTI Oil	\$ 61.57	-3.80	-3.66	2.38	35.59	-13.72

S&P 500 SECTOR RETURNS

1 Week as of 05/10/2019



S&P VALUATION

- P/E Ratio: **18.84**
- Forward P/E: **17.32**
- P/FCF: **22.28**
- 10YR CAPE: **26.23**

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MARKET COMMENTARY

U.S. MARKETS

U.S. markets were down across the board with the Dow sliding -2.1%, the S&P 500 down -2.2%, the Nasdaq declining -3.0%, and the Russell 2000 dropping -2.8%.

On an S&P 500 sector basis staples and energy were the relative outperformers down -0.4%, and -0.6% respectively. Technology and materials were the laggards. Tech, the best performing sector this year, dropped -3.6%. Materials was down -2.8%.

Markets had their worst week of the year stemming from fears that U.S./China trade relations might falter. Early in the week, President Trump tweeted about his dissatisfaction with how trade talks were developing. On Thursday, he raised tariffs to 25% on \$200 billion of Chinese goods. The Chinese government suggested they would retaliate, however, trade representatives for the two governments sat down today in hopes of striking a deal.

Tariffs imposed last year did not have a material impact on consumer prices, as evidenced by lower than expected inflation. This is likely because they affected higher parts of the supply chain and the yuan has depreciated against the dollar. However, according to a study by Bloomberg Economics the newer round of tariffs will more directly impact consumers and could cut U.S. GDP by 0.2%. Several trade groups have already expressed their concerns regarding the tariffs levied on Thursday night. The Vice President of Government Affairs for the Association of Equipment Manufacturers suggested that tariffs will "drive down exports and suppress job gains for the industry by as much as 400,000 over 10 years".

The events this week outline our view that many market-related events must unravel positively for equities to continue their rally and a small setback can have significant reverberations.

EUROPE

Equity markets in Europe were down this week with the EuroStoxx 50 sliding -4.0% and the EuroStoxx 600 dropping -3.4%.

ECONOMIC RECAP

THIS WEEK'S ECONOMIC RELEASES:

PPI Ex Food and Energy YoY: +2.4% vs. Est. +2.5% (05/09)

CPI YoY: 2.1% vs. Est. 2.1% (05/10)

NEXT WEEK'S ECONOMIC RELEASES:

NFIB Small Business Optimism Est. 102.3 (05/14)

Empire Manufacturing Est. 8 (05/15)

Building Permits Est. 1290k (05/16)

OUR TAKE ON THIS WEEK'S RELEASES:

Measures of inflation in the United States continue to remain muted. Yesterday, the PPI Ex Food and Energy came in at +2.4% on a YoY basis. This was lower than the expected +2.5% increase. Furthermore, today's CPI Index came in at +2.0% on a YoY basis (expected +2.1%) and the CPI Ex Food and Energy came in line with expectations at +2.1%.

Despite the recent turnaround in some economic data points, the European Commission cut its growth forecasts for the region. The cut was especially pronounced for Germany, the continent's most important economy, which the EU now expects to grow +0.5% this year (down from its 1.1% forecast earlier in the year).

The Commission's officials said their forecasts assume that trade tensions will be resolved and warned that if they become worse the slowdown could be more pronounced. German 10-year Bunds, which had risen above 0 last week, fell into negative territory after the report.

Meanwhile, the Eurozone's Composite PMI released this week rose from 51.3 in March to 51.5 in April. Analysts expected the index to remain flat at 51.3. However, industrial production continued to fall in both Germany and France. In Germany it fell by -0.9% in March on a YoY basis (versus -2.6% expected) and in France it also fell by -0.9% (versus -0.1% expected).

CHINA

The trade uncertainty brought on by President Trump's tweets and the increased tariffs sent Chinese equities down. The Shanghai Shenzhen CSI 300 fell -4.7%.

As we have discussed in previous notes, we continue to be concerned about the level of leverage in the Chinese economy, which recently ballooned due to government stimulus. This concern has started to materialize with defaults hitting record highs. During the first quarter of the year companies defaulted on \$5.8 billion of domestic debt. This number is 3.4 times higher than it was during the same period last year. Recently the Chinese government has begun to more strictly regulate the shadow banking sector, which a lot of smaller companies historically relied on. This has dried up funding for refinancing.

Some analysts note that defaults do not tell the full story. There are several examples of large corporations that have managed to pay their bonds within a grace period even if they defaulted on the original payment. This has allowed them to avoid being officially classified as defaults.

FX

The dollar was down this week with the dollar index dropping to 97.30.

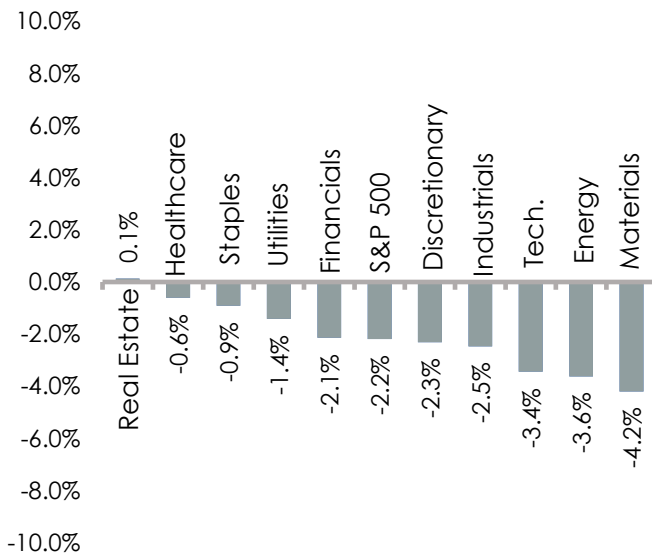
The dollar lost -0.3% versus the euro, -1.0% against the Japanese yen, and gained +1.3% versus the Chinese yuan. ■

*The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendation for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly. The economic forecasts set forth may not develop as predicted.

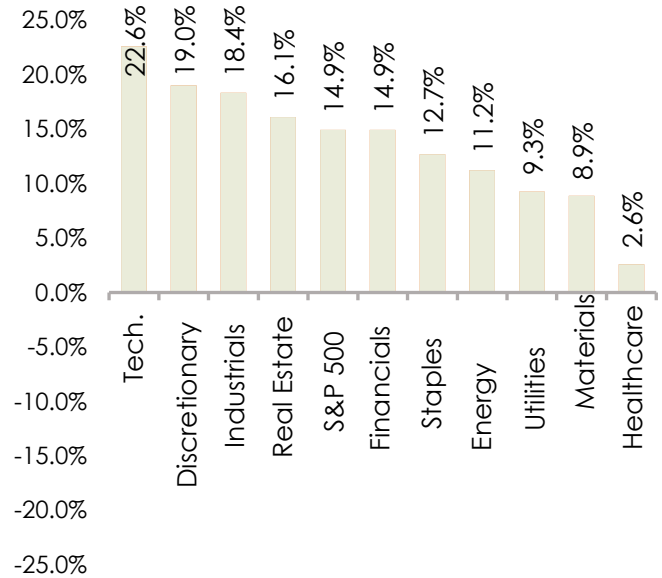
MARKET RECAP

Index Returns (Change in % pts.)	1 Week	MTD	QTD	YTD	1 Year
Equities					
DJ Industrial Average	-2.12	-2.45	0.05	11.21	4.86
S&P 500	-2.18	-2.19	1.66	14.94	5.81
Nasdaq	-3.03	-2.20	2.43	19.32	6.91
Russell 2000	-2.81	-1.42	1.88	16.32	-2.19
Russell 2000 Growth	-3.09	-1.62	1.35	18.51	0.01
Russell 2000 Value	-2.50	-1.20	2.46	14.06	-4.47
FTSE 100	-2.40	2.30	2.30	10.68	3.44
EuroStoxx 50	-4.04	2.86	2.86	14.86	0.51
EuroStoxx 600	-3.39	2.41	2.41	14.98	3.22
DAX	-2.84	4.20	4.20	13.74	-2.40
CAC 40	-3.99	2.35	2.35	15.76	3.78
Nikkei 225	-4.11	2.84	2.84	8.96	0.75
KOSPI	-4.02	3.22	3.22	8.26	-9.35
Hang Seng	-5.09	3.05	3.05	15.38	1.41
CSI 300	-4.67	4.90	4.90	34.93	5.38
MSCI Canada	-1.19	2.05	2.05	14.49	6.48
MSCI Brazil	-2.36	-2.45	-3.39	3.40	-4.72
Nifty 50	-3.70	0.36	0.36	7.40	12.99
Fixed Income					
Barclays U.S Aggregate	0.27	-0.30	-0.30	2.64	4.53
Barclays U.S Treasury	0.44	-0.46	-0.46	1.64	4.23
Barclays Muni Aggregate	0.48	-0.30	-0.30	2.59	5.17
Barclays Euro Aggregate	-0.01	-0.17	-0.17	2.34	2.14
Barclays Asia Pacific Aggregate	-0.26	-0.20	-0.20	1.60	1.95
Alternative					
Global Hedge Fund Index	-0.40	-0.41	0.25	2.85	-3.64

S&P 500 SECTOR RETURNS MTD



S&P 500 SECTOR RETURNS YTD



MARKET RECAP

Rates (Change in bps)						
	Last	1 Week	MTD	QTD	YTD	1 Year
U.S. Treasuries 2-Year	2.26%	-7	0	0	-22	-27
U.S. Treasuries 5-Year	2.26%	-6	-2	3	-25	-57
U.S. Treasuries 10-Year	2.46%	-6	-4	6	-22	-50
U.S. Treasury 2-10 Slope	0.20%	1	-4	5	0	-23
German Bunds 10-Year	-0.05%	-7	-6	3	-29	-60
French OATs 10-Year	0.35%	-3	-2	3	-36	-45
Canada Gov't Bonds 10-Year	1.73%	-3	2	12	-24	-67
Brazil Gov't Bonds 10-Year	8.79%	-9	-19	-17	-44	-143
China Gov't Bonds 10-Year	3.31%	-9	-9	24	0	-39

Commodities (Change in % pts.)						
	Last	1 Week	MTD	QTD	YTD	1 Year
WTI Oil	\$61.57	-3.80	-3.66	2.38	35.59	-13.72
Natural Gas	\$2.62	5.38	1.90	-1.43	-10.75	-6.75
Gold	\$1,287.10	1.20	0.11	-0.46	0.45	-2.66
Core Comdty. Index	\$178.95	-4.37	-2.87	-2.61	5.39	-12.50

Volatility (Change in % pts.)						
	Last	1 Week	MTD	QTD	YTD	1 Year
VIX	16.09	24.63	22.26	16.99	-36.90	21.24
VXD	16.93	22.59	24.48	17.79	-31.19	12.76
VXN	19.32	20.59	16.08	15.94	-38.71	17.64
RVX	19.53	16.19	14.42	9.66	-31.60	32.70
TYVIX	4.04	12.53	2.02	-7.97	-11.79	11.91

Currencies (Net Change)						
	Last	1 Week	MTD	QTD	YTD	1 Year
Dollar Index	97.302	-0.218	-0.177	0.018	1.129	4.652
Euro (\$/€)	1.123	0.003	0.002	0.001	-0.024	-0.069
Pound (\$/£)	1.300	-0.017	-0.003	-0.003	0.025	-0.052
Yen (¥/\$)	109.930	-1.170	-1.490	-0.930	0.240	0.530
Canadian Dollar (CAD/\$)	1.342	0.000	0.003	0.007	-0.022	0.065
Swiss Franc (\$/CHF)	0.988	0.005	0.007	-0.016	-0.030	-0.009
Chinese Yuan (CNY/\$)	6.844	0.109	0.107	0.121	-0.027	0.514

U.S. EQUITY SIZE & STYLE RETURNS (as of 05/09/19)

1 Week				YTD		
Value	Core	Growth		Value	Core	Growth
-1.94	-1.72	-1.07	Large	10.12	15.82	17.47
-1.52	-1.88	-0.36	Medium	12.70	18.97	23.96
-1.15	-1.17	-1.08	Small	14.46	17.16	21.08

*All data sourced from the Bloomberg Terminal as of 05/10/2019.

**This review has been completed as a template with the understanding that the format will remain and the content within the charts/graphs will be updated to reflect the most recent data.