Weekly Market Recap
November 19, 2018

		Return	
Index	**Close**	**Week**	**YTD**
Dow Jones Industrial Average	25,413	-2.2%	2.8%
S&P 500 Index	2736	-1.6%	2.3%
NASDAQ	7248	-2.1%	5.0%
Russell 2000 Index	1528	-1.4%	-0.5%
MSCI EAFE Index	1807	-1.8%	0.7%
10-yr Treasury Yield	3.06%	-0.12%	0.66%
Oil ($/bbl)	$56.83	-5.6%	-5.9%
Bonds*	$104.66	0.5%	-2.1%

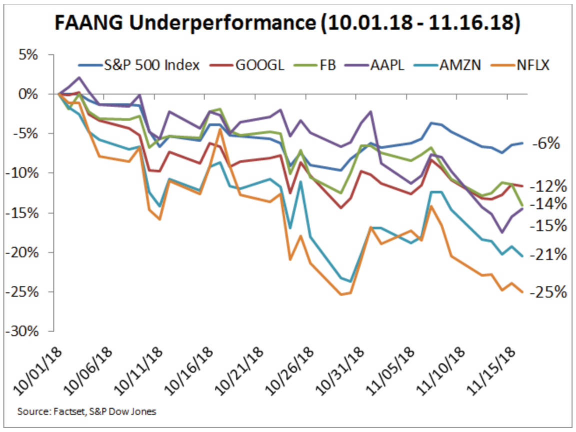
Source: Bloomberg, 11/16/18.

*Bonds represented by the iShares U.S. Aggregate Bond ETF.

Last Week:

U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) finished lower (-1.6%) during the week following big gains in the prior two weeks as U.S./China trade concerns continue to weigh on markets, and higher-valuation growth stocks underperformed, while slower-growing value shares generally outperformed for the third consecutive week
  - REITs (+0.8%) and Materials (+0.4%) were the only positive sectors as Materials benefited from pockets of strength in industrial, precious metals and packaging
  - Utilities (-0.3%), Industrials (-0.7%), Healthcare (-1.1%), Communication Services (-1.1%), and Financials (-1.3%) outperformed
  - Consumer Staples (-1.7%) underperformed
  - The energy (-2.1%) sector was dragged down by commodity weakness
  - Information Technology (-2.5%) underperformed along with higher-valuation growth stocks as a pullback in hardware stocks was led by Apple (-5.4%) and concerns on demand for the new iPhone XR
  - Consumer discretionary (-3.8%) was the worst performing sector with weakness in the retail group including **Amazon** (-7.0% for the week and -21% since late August)
- The Dow Industrials underperformed (-2.2%) during the week, led by Apple's (-5.4%) decline
  - Worst for the week were Goldman Sachs (-9.2%), Boeing (-9.0%) and Walmart (-7.5%)
  - Best were 3M (+3.9%), **Verizon** (+3.0%), and Caterpillar (+2.4%)
- Dow Utilities fell -1.2%, while Dow Transports gained 0.6%
- The technology-heavy Nasdaq Composite Index (-2.1%) underperformed the S&P 500 Index
- Higher-valuation growth stocks were not helped by the so-called "FAANG," as Amazon (-7.0%), Netflix (-5.7%), Apple (-5.4%) and Facebook (-3.85%) underperformed, continuing the FAANG underperformance trend since the end of September

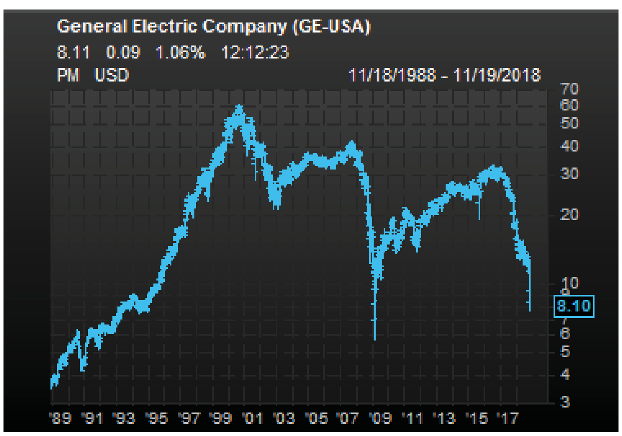


Source: Factset, S&P Dow Jones

- Small-cap equities outperformed U.S. large caps as the Russell 2000 Index fell -1.4%
- California utility PG&E said it may bear responsibility for wildfire damages caused by its equipment. Its shares plummeted more than 50% over a five day period and are down 50% year-to-date, closing Thursday at their lowest level in 15 years. It's hard to say peer Edison International has fared much better, as it's down more than 30% over the past year
  - By Friday morning, PG&E shares had rallied 40% from their Thursday closing, after its state regulator indicated that it doesn't see bankruptcy as a likely outcome.

Fixed Income

- Concerns about credit weakness across corporate bonds increased as the CDX IG 5yr widened more than 10 basis points over the last week
  - Fears of a potential contagion from GE (-6.5%) bonds' selloff was highlighted in a *Wall Street Journal* article that pointed out that a slide below investment grade could have meaningful implications for the junk bond market
  - GE's stock is approaching Financial Crisis lows

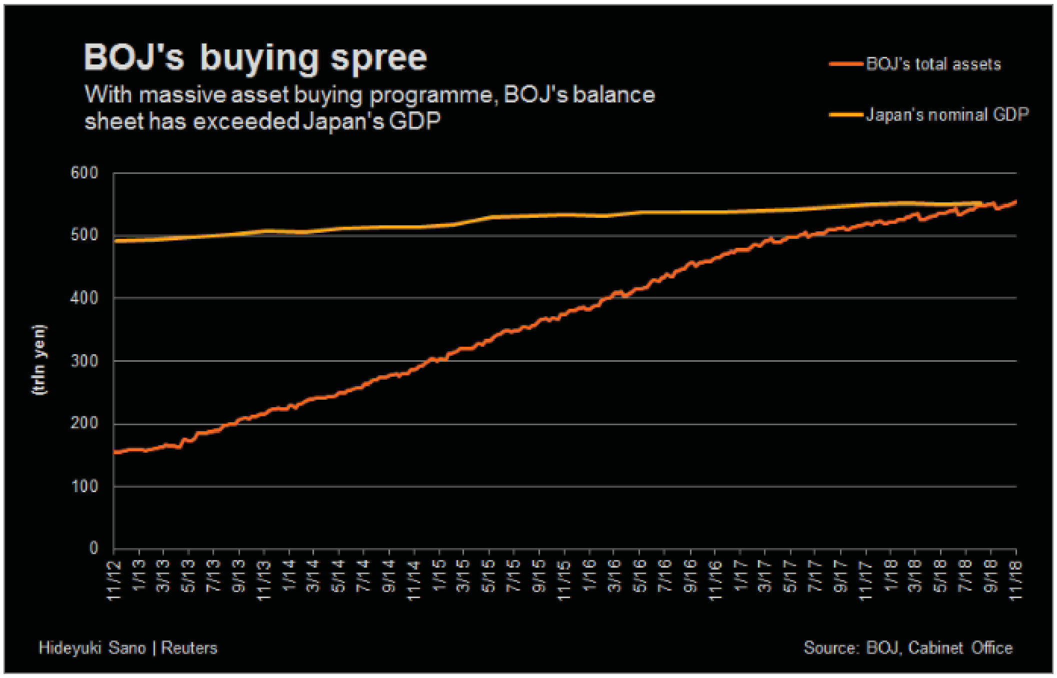


Source: Factset

International Markets and News

- European equities declined (STOOX Europe 600 -2.2%) as the ongoing uncertainty regarding Brexit and Italy's budget deficit weighed on markets
  - Brexit (UK exiting the European Monetary Union) fears increased throughout the week, as British Prime Minister Theresa May lost parliamentary support for her draft agreement on Britain's withdrawal from the EU, and was forced to reshuffle her cabinet after key members resigned
  - Opponents of the proposed Brexit deal argue that it threatens UK integrity by creating different regulatory regimes for Northern Ireland and the rest of the country, and by giving Brussels significant powers over Britain
  - The British Pound plunged 1.6% against the US Dollar on Thursday as Prime Minister Theresa May's Brexit plan was met with skepticism. No one said this was going to be easy
  - Italian government bond yields rose, and Italy's FTSE MIB Stock exchange declined -2%, after the Italian government rejected the European Commission (EC) demands to revise its 2.4% budget deficit and 1.5% growth target. After issuing the unprecedented warning, the EC will now have to decide whether to implement disciplinary measures against the Italian government
  - Germany's economy shrank for the first time in 3½ years in the third quarter while overall eurozone annualized growth was 0.7% over the quarter, its lowest rate since 2013
- Despite ongoing trade tensions with the US, Chinese markets rose during the week with the Shanghai Composite Index gaining 3.1%
  - Increased interest in Chinese stocks may have been driven by foreign investors who have been buying yuan-denominated A shares at a record pace since the start of November, according to Bloomberg
  - October fixed-asset investment and industrial production both increased more than expected suggesting that recent efforts by Chinese officials to improve slowing economic growth appear to be working well
  - But retail sales grew at their slowest pace since May and were below expectations
- Japanese equities underperformed (Nikkei 225 Index -2.6%) as the Japanese economy contracted at an annual pace of -1.2% in Q3.18, which was below analyst expectations
  - Natural disasters, tepid domestic consumption, and a decline in exports contributed to the weaker economic growth in the third quarter
  - The -1.8% dip in exports was the largest fall in more than three years, many economists feared this decline was not entirely caused by disruptions from natural disasters, pointing to China economic weakness and tariff concerns
  - According to a poll by *The Nikkei*, the Japanese economy is expected to grow at a 2.1% annualized rate in the fourth quarter as disruptions from natural disasters fade, domestic consumption improves and capital investment rises as companies invest in equipment to offset the country's dire labor shortage

- Remarkably, the size of the Bank of Japan's balance sheet now exceeds the size of the country's GDP. It owns the dubious distinction of being the first such G7 nation where that's the case, but may not be the last



U.S. Economic and Political News

- Fed Chair Jerome Powell did not use a moderated Q&A session to dial back his "long way from neutral" comments from early October, but he did reiterate the uncertainty surrounding key policy inputs such as the neutral rate and natural unemployment rate
  - Powell stressed the objective of "extending the expansion" as opposed to guarding against overheating
  - Regarding the equity market volatility, he said financial markets matter, but are one of "many, many" factors and that "we are looking mainly at the real economy," adding credit spreads have been "very tight" and "fairly low"
  - He did flag waning fiscal stimulus, slowing foreign growth and lagged effects from Fed tightening as headwinds
- Meanwhile, Chicago Fed President Charles Evans said he believes three or four interest rate increases are most likely in 2019, saying that while the Fed's current rate is a little bit short of neutral, it's "getting close enough, [and] is beginning to right-size a number of the risks we've been seeing." We struggle to reconcile 3-4 further interest rate increases in the next year with his qualitative comments
- US economic data was mixed
  - The Empire State index ticked up from 21.1 in October to 23.3 in November
  - Meanwhile, the Philadelphia Fed index fell from 22.2 in October to 12.9 in November

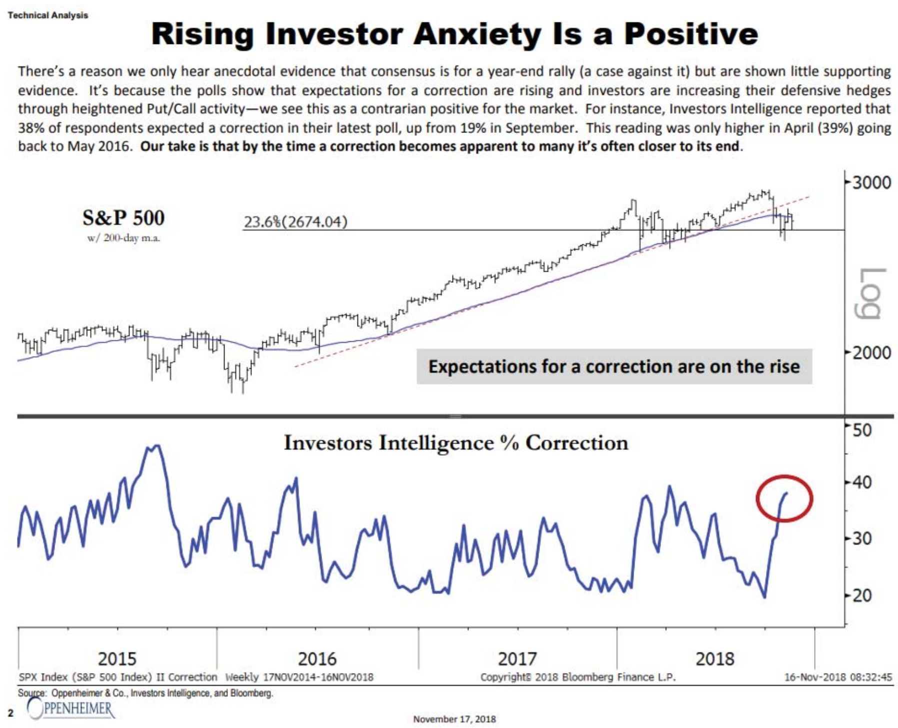
  - Industrial Production edged up 0.1% in October, though that missed the 0.2% consensus forecast

Commodities

- Bitcoin fell to its lowest level in more than a year, down nearly 75% year-to-date
- WTI crude was down nearly 6%, falling for a record 12th consecutive session Friday, after entering into bear market territory (-20%) last week.
  - Despite reports that OPEC may reduce output by 500k barrels per day (bpd) to 1.4M bpd, the oil selloff continued
  - Possible drivers of the ongoing decline include: recent waivers to some of Iran's biggest customers, higher non-OPEC production estimates, technical selling, and dealers offsetting exposure to producer hedges
  - Additionally, President Trump tweeted that he hoped OPEC would not cut production and said prices should be lower

This Week:

- U.S. stocks are lower Monday, with growth-oriented indices feeling relatively more pain
  - While stocks have endured a tough quarter thus far, when investors fear a correction, it's generally because one has already occurred



- It's a US market holiday on Thursday (Thanksgiving), and shortened trading Friday (stock market closes at 1pm Eastern)
- Earnings reports are relatively sparse this week:
  - Monday: Agilent, **Intuit**
  - Tuesday: **Analog Devices**, Autodesk, Best Buy, Campbell Soup, Gap, **Hormel**, **Lowes**, **Medtronic**, Ross Stores, Target
  - Wednesday: Deere
- U.S. economic news includes NAHB housing numbers on Monday, Housing starts and completions on Tuesday, durable goods orders on Wednesday, and Flash PMI on Friday
- International economic data:
  - Monday: Japan trade balance data, Euro-Zone Current accounts & Construction Output, UK Rightmove House Price
  - Tuesday: Germany PPI, UK CBI industrial trends, BoE Gov Carney Speech
  - Wednesday: UK Public Sector Borrowing
  - Thursday: Euro-zone Consumer Confidence Flash, China and Japan CPI Core
  - Friday: Euro-zone Markit Composite PMI Flash, Germany Markit Composite PMI Flash

As always, thank you very much for your interest in our thoughts and support of our services.

Best wishes for a safe and festive Thanksgiving!

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