



Index	Return		
	Close	Week	YTD
Dow Jones Industrial Average	25,883	3.1%	11.0%
S&P 500 Index	2,776	2.5%	10.7%
NASDAQ	7,472	2.4%	12.6%
Russell 2000 Index	1,569	4.2%	16.4%
MSCI EAFE Index	1,829	1.3%	6.3%
10-yr Treasury Yield	2.66%	0.03%	-0.02%
Oil (\$/bbl)	\$55.75	5.7%	22.8%
Bonds*	\$107.30	0.0%	1.0%

Source: Bloomberg, 02/15/19

*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) rose 2.5% as optimism for U.S.-China trade talks continued, Fed Governor Brainard provided dovish commentary, U.S. labor market data remained strong, and an agreement to avoid another government shutdown was reached. The positive news offset weak December retail sales and disappointing industrial production data
 - Energy (+4.8%) performed best as the price of oil rallied 5.7% for the week
 - Industrials (+3.5%) outperformed with strength in machinery, construction and engineering, building materials and railroad stocks
 - Materials (+3.4%) outperformed underpinned by paper and packaging, chemicals, and select industrial metals
 - Healthcare (+3.2%) outperformed on broad based strength across the sector, but remains an underperforming sector year-to-date
 - Financials (+2.9%) outperformed led by money center and investment banks
 - Consumer discretionary (+2.6%) outperformed with strength in retail, autos and housing
 - Information technology (+2.4%) modestly underperformed as semiconductors and networking stocks outperformed
 - Communication services (+1.0%) underperformed as Facebook pulled back -2.9%
 - Consumer staples (+1.1%) , REITs (+0.9%) and utilities (-0.3%) underperformed as investors preferred less defensive sectors
 - The S&P 500 now sits right at its 200-day moving average, as shown in the accompanying graphic



Source: Bespoke

- The Dow Industrials rose 3.1%, outperforming the S&P 500 Index
- Small-cap equities outperformed U.S. large caps as the Russell 2000 Index rose +4.2%, and remains 5.7% ahead of the S&P 500 Index for 2019 after a robust start to the year
- The technology-heavy Nasdaq Composite Index (+2.4%) modestly underperformed the S&P 500 Index
- In a reversal of 2018 where “nothing worked,” in 2019, “everything” seems to be working, at least thus far

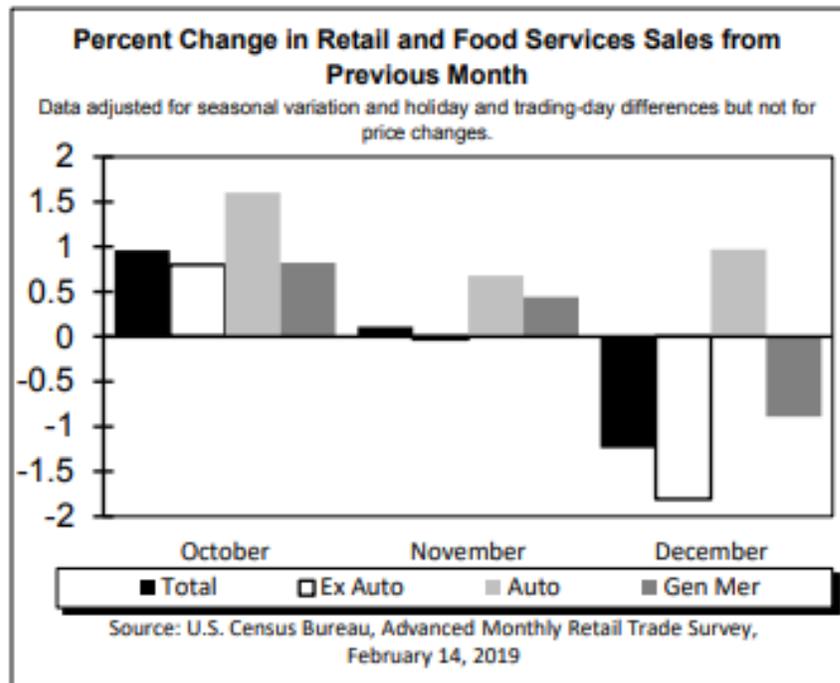
2014	2015	2016	2017	2018	2019 YTD
REITS	MSCI Japan	Commodities	MSCI China	US 2yr	REITS
S&P 500	REITS	Russell 2000	MSCI EM	US 10yr	Russell 2000
US 10yr	US 10yr	US HY	MSCI Europe	US Agg. Bond	MSCI China
MSCI China	EM\$Sov Credit	Global HY	MSCI Japan	US HY	S&P 500
US IG	S&P 500	S&P 500	S&P 500	US IG	MSCI EM
EM\$Sov Credit	US 2yr	MSCI EM	Russell 2000	EM Local Debt	MSCI Europe
US Agg. Bond	US Agg. Bond	EM\$Sov Credit	EM Local Debt	Global HY	Commodities
Russell 2000	US IG	REITS	Global HY	REITS	US HY
Inflation Bonds	MSCI Europe	US IG	EM\$Sov Credit	Inflation Bonds	Global HY
US HY	Global HY	EM Local Debt	REITS	EM\$Sov Credit	EM\$Sov Credit
US 2yr	Russell 2000	Inflation Bonds	Inflation Bonds	S&P 500	MSCI Japan
Global HY	US HY	MSCI Japan	Commodities	Commodities	EM Local Debt
MSCI EM	Inflation Bonds	US Agg. Bond	US HY	Russell 2000	US IG
EM Local Debt	MSCI China	MSCI China	US IG	MSCI Japan	Inflation Bonds
MSCI Japan	EM Local Debt	US 2yr	US Agg. Bond	MSCI EM	US Agg. Bond
MSCI Europe	MSCI EM	US 10yr	US 10yr	MSCI Europe	US 10yr
Commodities	Commodities	MSCI Europe	US 2yr	MSCI China	US 2yr

Source: Jefferies

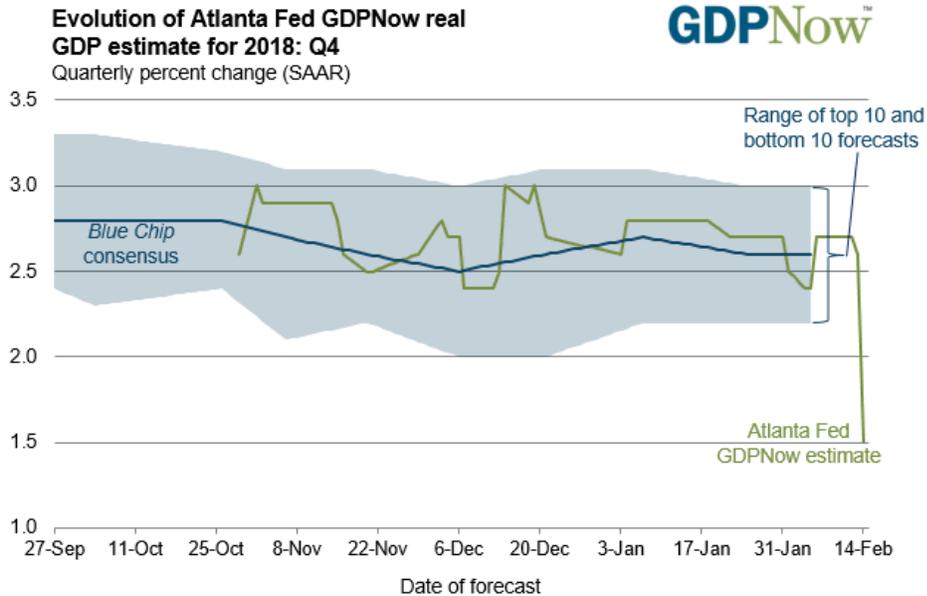


U.S. Economic and Political News

- Economic data was mixed, with a notable divergence seen between generally soft December/January reports (amid the partial government shutdown) vs. more-robust data on either side of the shutdown
 - The University of Michigan’s Consumer Confidence index printed 95.5, beating the 93.5 consensus expectation
 - The Consumer Price Index saw a deceleration to a 1.6% y/y rate of increase in January, from 1.9% in December. Core CPI (which excludes food and energy) stayed steady at a 2.2% y/y increase
 - The Producer Price Index also saw a deceleration to a 2% y/y rate of increase in January, from 2.5% in December. Core PPI decelerated to 2.5%, vs. 2.8% in December
 - Weekly Jobless Claims were 239,000
 - Industrial Production fell -0.6% in January, well below the +0.1% consensus estimate
 - Capacity Utilization printed 78.2 vs. consensus 78.8
 - A positive economic data point came from the Empire State index, which rose to 8.8 in February, above the 7.6 consensus forecast
 - Retail Sales fell -1.2% in December, their biggest monthly decline since 2009, well shy of the flattish consensus forecast, and a marked reversal of October and November’s gains



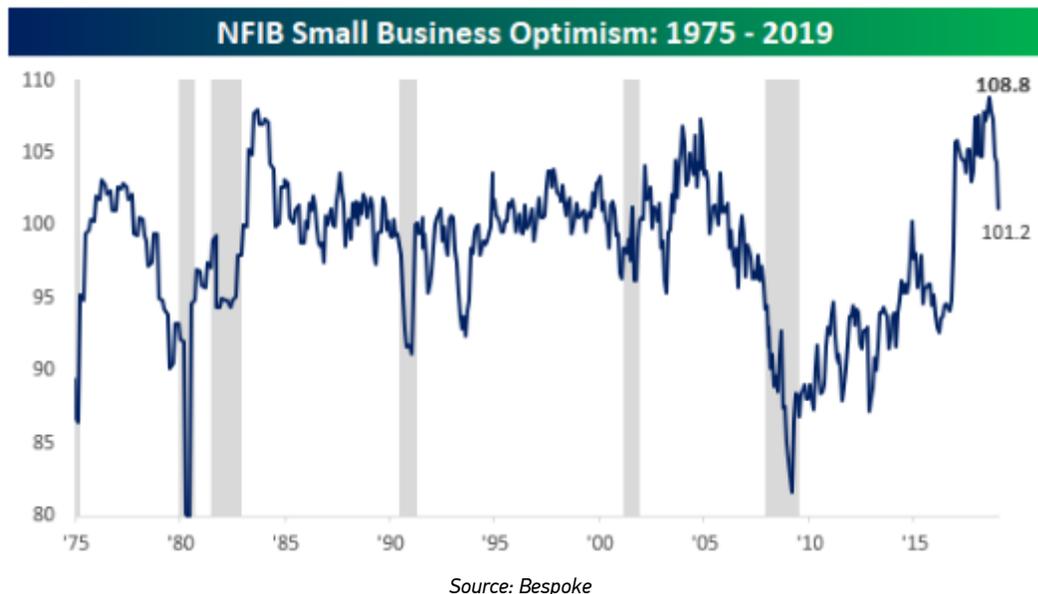
- Based on the soft retail sales report, the Atlanta Federal Reserve’s GDP tracker plunged, now calling for just 1.5% GDP growth in the fourth quarter of 2018



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

Note: The top (bottom) 10 forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

- U.S. Small Business Optimism sunk to a two-year low in January, reflecting the partial government shutdown and slowing GDP growth



- U.S. President Trump indicated willingness to extend the 90-day trade war truce before the March 1st deadline, when the U.S. is expected to increase tariffs to 25% from 10% on \$200 billion of Chinese imports



- Fed Governor Brainard told CNBC that she favors bringing the balance sheet normalization to an end later this year, pointing out that it “has really done the work that it was supposed to do.” The Wall Street Journal subsequently reported that Fed officials are closing in on a plan to end the wind-down of the central bank’s \$4T asset portfolio as soon as this year and that the Fed could finalize more details of its strategy at next month’s policy meeting
- Stocks rallied Tuesday amid signs that legislators and the White House reached a “tentative deal” to avoid (another) government shutdown. Thanks for doing your job, Washington!
- The US federal debt climbed above \$22 trillion for the first time ever (a \$1 trillion increase in the last 11 months), with daily interest payments running \$1 billion
- The Senate confirmed William Barr as Attorney General

International Markets and News

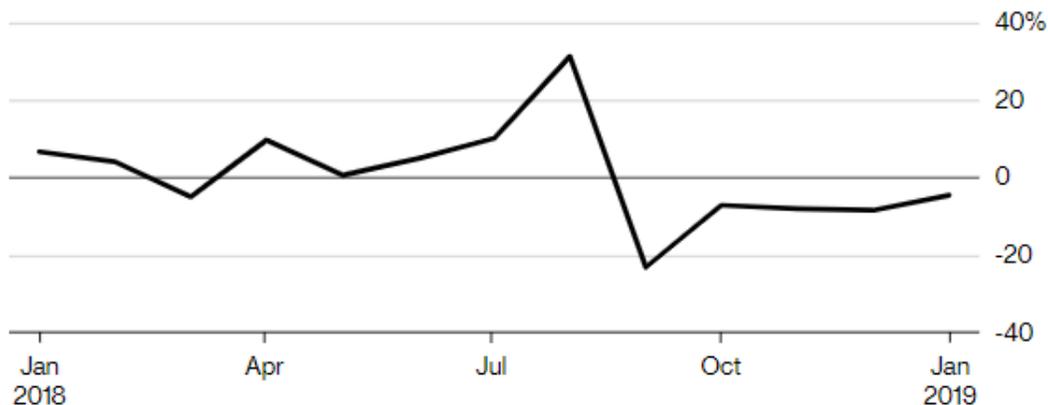
- European equities (STOXX Europe 600) rose 3.0% as optimism for a U.S.-China trade deal increased and global central banks’ (including the European Central Bank) continued dovish messaging. Gains came despite more signs of slowing in the Eurozone economy, ongoing Brexit negotiations, and European equity funds booking \$5.9B of redemptions during the week ending February 13th
 - Chemicals (+5.5%), auto & parts (+5.0%), technology (+4.3%), construction & materials (+4.0%), and banks (+3.7%) outperformed. Real estate (-0.8%), utilities (+0.8%), travel & leisure (+0.9%), telecom (+1.6%) underperformed
 - Reports that the European Central Bank (ECB) may provide fresh TLTRO (cheap loans) for banks to support consumer confidence as the ECB’s Coeure (widely regarded as the key architect of the QE program), hinted this week that a new TLTRO program is possible and is currently being discussed by the ECB. Earlier in the week, Reuters suggested details of a new TLTRO could come in March or June
 - U.K. Prime Minister May suffered a setback in her Brexit plan after Parliament rejected her approach to renegotiating the withdrawal agreement by 303 to 258 in a non-binding vote
 - Spanish PM Sanchez called a snap election for April 28th after he was unable to get his 2019 budget through parliament, with Conservative and Catalan secessionists voting 191 versus 158. Spain doesn’t have large anti-EU or populist parties, so from an economic policy perspective, the election campaign should be reasonable and shouldn’t negatively affect the country’s financial markets
 - New vehicle sales in Europe have declined year-over-year for the last five straight months



Stalled Sales

Car sales have not shown growth since the post-WLTP shock of September 2018

▲ Growth (EU + EFTA)



Source: European Automobile Manufacturers Association (ACEA)

- Chinese markets (Shanghai Composite Index) rose 2.5% as U.S. President Trump indicated willingness to extend the 90-day trade war truce
 - A trade war truce extension before the March 1st deadline would push back expectations for the U.S. to increase tariffs to 25% from 10% on \$200 billion of Chinese imports
- Japanese equities rose 2.8% (Nikkei 225 Index) during the week as Japanese GDP rose 1.4% in the fourth quarter of last year, but Japan's corporate earnings weakened during the same quarter
 - Recovery from several natural disasters in the prior quarter benefited Japan's economic growth, as consumer and business spending posted gains despite pressure on exports from the slowing Chinese economy and the U.S.-China trade dispute
 - Japan's corporate earnings weakened in the fourth quarter and many corporate executives cited the Chinese economic slowdown and the U.S. trade dispute as the primary drivers of the downturn in profits. The International Monetary Fund forecasts that Japan's economy will deteriorate further in 2019

Commodities

- The price of gold rose +0.3% for the week
- The price of crude oil rose 5.7% in the week and has rallied nearly 23% in 2019 after collapsing in the 2nd half of 2018



This Week:

- Fourth quarter earnings will continue to dominate the corporate news cycle in a holiday shortened week with several well-known U.S. companies reporting, including but not limited to: Advance Auto Parts, Expeditors, **Medtronic**, Terex, Walmart, Devon, **Verisk**, **Analog Devices**, **CVS**, Wolverine Worldwide, Agilent, Cheesecake Factory, Green Dot, Nordson, Wendy's, Roku, Zillow, Hewlett Packard Enterprise, **Intuit**, Allscripts, Wayfair, Cabot
- The economic calendar will be relatively quiet in the U.S. with NAHB housing market index, FOMC meeting minutes, and flash PMI data on the docket
- U.S. economic data:
 - Monday: U.S. markets closed for Presidents Day
 - Tuesday: NAHB Housing Market Index (Feb), Fed Speaker Mester
 - Wednesday: FOMC Minutes
 - Thursday: Durable Goods Orders (Dec), Philadelphia Fed Manufacturing Index (Feb), Markit Composite / Services / Manufacturing PMI (Feb), Existing Home Sales (Jan), CB Leading Index (Jan), Fed Bostic Speech
 - Friday: Fed speakers Williams, Clarida, Quarles
- International economic data:
 - Monday: Euro-zone: ECB Enria Speech; Germany: Bundesbank Monthly Report; UK: Rightmove House price index (Feb); China: Vehicle Sales (Jan)
 - Tuesday: Euro-zone: Current Account (Dec), Construction Output (Dec), ZEW Economic Sentiment (Feb) Current Account (Dec); Germany: ZEW Current Conditions (Feb); UK: Average Earnings (Dec), Unemployment Rate (Dec):
 - Wednesday: Euro-zone: ECB Praet Speech, Consumer Confidence (Feb), ECB Monetary policy meeting; Germany: PPI (Jan); UK: CBI Industrial Trends (Feb); Japan: Balance of trade Import/Export (Jan)
 - Thursday: Euro-zone: Markit Compositied PMI Flash (Feb), ECB Monetary Policy Meeting Accounts, ECB Praet Speech; Germany: Inflation Rate (Jan), Markit Composite Flash (Feb); UK: Public Sector Net Borrowing (Jan), BoE Haldane Speech; Japan: Nikkei Manufacturing PMI (Flash Feb), All Industry activity Index (Dec)
 - Friday: Euro-zone: Core Inflation Rate (Jan), Inflation Rate (Jan), ECB Draghi Speech; Germany: GDP Growth Rate Q4, lfo Expectations (Feb); UK: CBI Distributive (Feb); China: House Price Index (Jan); Japan: Core Inflation Rate (Jan), Leading Economic Index (Dec), Coincident Index (Dec)



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

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