Financial Intelligence
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Weekly Recap

For the week ending March 29, 2019

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Global Asset Class Performance

Major Equity Asset Class Performance

Index	1 Week	3-Mos	YTD	1 Year	3 Year	Flows (mill)
S&P 500	1.23%	1.42%	11.48%	4.68%	15.28%	($688)
Russell 3000	1.35%	1.94%	12.40%	5.05%	15.53%	($7,670)
Russell 1000	1.28%	1.84%	12.05%	4.99%	15.43%	($3,402)
Russell MidCap	1.71%	4.09%	15.55%	5.63%	14.46%	($166)
Russell 2000	2.32%	3.13%	17.03%	5.58%	16.67%	($789)
MSCI EAFE	-0.04%	4.03%	9.32%	-5.57%	9.85%	($3,510)
MSCI EM	-0.06%	6.20%	9.03%	-9.54%	15.46%	($2,073)
MSCI World	0.77%	2.70%	11.11%	1.00%	13.28%	($10,415)

Equity Style Performance

1 Mos	Value	Blend	Growth
Large	3.20%	3.39%	3.58%
Mid	3.18%	4.30%	5.86%
Small	3.89%	5.20	6.46%

YTD	Value	Blend	Growth
Large	11.23%	12.05%	-12.89%
Mid	13.81%	15.55%	18.03%
Small	15.25%	17.03%	18.75%

Equity Factor Performance

Factor Index	3 Mos	YTD	1 YR Risk-Adj %
MSCI USA Small Cap	3.95%	17.13%	6.21%
MSCI USA Value	0.41%	10.58%	4.21%
MSCI USA Minimum Volatility	1.98%	9.77%	15.45%
MSCI USA Momentum	2.01%	10.50%	2.01%
MSCI USA Quality	3.79%	13.17%	6.58%
MSCI USA Dividend Tilt	1.08%	10.88%	8.10%

Major Equity Asset Class Performance

Index	1 Week	3-Mos	YTD	1 Year	3 Year	Yield
Bloomberg Barclays US Aggregate	0.33%	2.86%	1.00%	3.17%	1.69%	2.94
Bloomberg Barclays US High Yield	0.35%	3.98%	6.26%	4.31%	9.81%	6.74
Bloomberg Barclays Municipals 10 Yr	0.43%	3.03%	1.64%	5.13%	2.36%	2.14

Rates

	3/29/19	3/22/19	3/29/18	12/31/18	3/29/18	3/29/16
2-yr U.S. Treasuries	2.27	2.31	2.27	2.48	2.27	0.78
10-yr U.S. Treasuries	2.41	2.44	2.41	2.69	2.74	1.81
30-yr U.S. Treasuries	2.82	2.88	2.82	3.02	2.97	2.60
10-yr German	-0.07	-0.03	-0.07	0.24	0.49	0.14
10-yr Japan	-0.01	-0.08	-0.01	0.00	0.04	-0.11
10-yr U.K.	0.97	0.97	0.97	1.27	1.35	1.41

Chart of the Week – YTD All Country Equity, Bond, and Money Market Fund Flows (Cumulative, $Mil)

Sources: Zephyr StyleADVISOR, MacroBond, PSN Enterprise, Bloomberg. 1 week data as of 3/29/19, unless otherwise stated, time periods over 1 week as of 2/28/19. Equity Style Performance represented by: Large Value – Russell 1000 Value, Large Blend – Russell 1000, Large Growth – Russell 1000 Growth, Mid Value – Russell MidCap Value, Mid Blend – Russell MidCap, Mid Growth – Russell MidCap Growth, Small Value – Russell 2000 Value, Small Blend – Russell 2000, Small Growth – Russell 2000 Growth. Fund flow data (EPFR Global) 3/21/19 – 3/27/19, S&P 500 (Large Cap Blend flows), Russell 3000 (all U.S. equity flows), Russell 1000 (all Large Cap flows), Russell Mid Cap (all Mid Cap flows), Russell 2000 (all Small Cap flows), MSCI EAFE (Western Europe DM, Asia Pacific DM flows) MSCI EM (All Emerging Market flows), MSCI World (All Developed Markets flows)

Key Themes – S&P 500 finishes the week up 1.23% on growing trade optimism

Theme	
Economic Data	The Chicago Fed's national economic activity index came in at a negative 0.29 in February down from a negative 0.25 in January. The housing slowdown continued in February as evidenced by housing starts slowing to an annual pace of 1.16 million, which is a 9% drop, according to the Commerce Department. Meanwhile, building permits fell 1.6% to an annual rate of 1.3 million in February. Additionally, new home sales increased 4.9% in February, coming in at a seasonally adjusted annual 667,000 pace. According to the S&P CoreLogic Case-Shiller 20-city index, the growth of home prices slowed to a seasonally adjusted 0.1% increase in January compared to the month prior. Prices increased 3.6% from a year earlier, which marks the slowest price growth since 2012. The Conference Board announced that consumer confidence fell to 124.1 in March from 131.4 in February, while the University of Michigan's consumer sentiment index rose to 98.4 in March from 93.8 in February. The U.S. trade deficit fell to $51.1 billion in January from nearly $60 billion in December. Fourth quarter GDP was revised to 2.2% from the original posting of 2.6% growth, which matched expectations. Despite the decrease, GDP for the entire 2018 remained at 2.9% which matches 2015 as the best year since the credit crisis. Inflation, measured by the personal consumption expenditures (PCE) price index, fell 0.1% in January, resulting in the annual rate to decrease to 1.4% from 1.8%. This marks the lowest level since 2016. Meanwhile, the core rate increased 0.1% in January while the 12-month core rate fell to 1.8% from 2%. Consumer spending increased of 0.1% in January after falling 0.6% in December. Personal incomes rose 0.2% in February.
Trade	Trade talks were rekindled this week in Beijing, resulting in renewed optimism. Reuters reported that progress has been made on the contentious forced technology transfer issue. The reports of progress being made on the more difficult issues provided optimism for investors that a breakthrough in trade may happen sometime in April.

Perspective from 6,237 feet

Overdone?	The first quarter closed as the best performing quarter for the S&P 500 since 2009, which may come as a surprise to some when considering what the bond market and economic data are telling us. During the quarter we experienced mixed economic data, while corporations and global organizations alike cut growth forecasts for the U.S. and global economies. FactSet is estimating that first quarter corporate earnings will fall by over 3%. While equities posted stellar gains, bond yields, measured by the 10-year treasury, finished the quarter at 2.41%, despite opening the quarter at 2.69% on January 1. Additionally, according EPFR Global, investors redeemed over $37 billion from U.S. equity funds during the quarter. So, you may be asking, what drove the solid returns for equities? For starters, growing trade optimism and a policy shift by the Federal Reserve (Fed) were the primary drivers for the equity rally. However, I think there were secondary drivers as well. Equities started the year after getting battered in December, which I believed was overdone, and investors decided to gobble up the beaten up equities. Additionally, despite the slowing U.S. economy, it's in better shape then other global economies, so equity investors had limited options outside U.S. equities. Ok, so you ask, why is the bond market telling a different story? Again, there are a couple factors at play here. The global economy is slowing and there are recession fears present, particularly in the eurozone, which is one of the reasons why the Fed became overly dovish. Inflation remains muted and the Fed has put off raising rates, which both preserve the value of bonds. Negative German and Japanese government debt yields have forced foreign investors to turn to treasuries, which has provided support for treasury prices. Finally, the U.S. population is aging. The baby boomer cohort, which holds a large portion of investable assets, are rotating into more conservative bonds as they enter their spending/retirement years. Just like I think the December sell-off was overdone, I also think the Q1 equity rally was overdone, as the mixed economic data and slowing corporate earnings do not support a 12% rally.
Inversion	Much has been made of the inverted 3-month and 10-year yield curve this week. Going back in history, an inverted yield curve has been a reliable indicator that a recession will occur within the next 24 months. This shouldn't come as a surprise to anyone, since most have been predicting a recession in the next couple of years due to the slowing global economy. Plus, all economic expansions eventually end, right? However, I think it is more likely a recession happens at the tail end of the 24 month time period. Why? 1.) The U.S. labor market continues to be strong. 2.) Consumer sentiment remains solid and leading indicators are also expanding. 3.) The Fed will remain accommodative. I do believe a recession will happen in the next couple years, which points to a continued economic expansion in the near term, which will provide equity investors opportunities as volatility picks up during the last few years of the current expansion.

All Eyes On……..

This is a busy week for economic data. We will get more information regarding the manufacturing sector, which has been a weak spot for the U.S. economy. Additionally, a lot of eyes will be focused on the jobs report this week. It is important that the labor market remains strong, while hourly wage growth continues to grow at a good pace while not spiking.

Day	Event
Monday, April 1	U.S. Retail Sales (Feb.), Markit Manufacturing PMI (March), ISM Manufacturing (March), Business Inventories (Jan.)
Tuesday, April 2	U.S. Durable Goods Orders (Feb.)
Wednesday, April 3	U.S. ADP Employment Report (March), Markit Services PMI (March), ISM Non-Manufacturing (March)
Thursday, April 4	U.S. Weekly Jobless Claims
Friday, April 5	U.S. Jobs Report (March), Consumer Credit

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About Ryan Nauman

As Market Strategist, Ryan Nauman's primary focus is providing value added market and investment insight along with educating buy-side participants on investment analytics and portfolio management concepts.

Ryan provides analysis and research on market trends across asset classes, sectors, and regions to help empower better decisions for creating asset allocation strategies. His insight is disseminated through white papers, articles, training, and interviews with a target audience of financial advisors, portfolio managers, and investment analysts.