Weekly Insight

January 9, 2019

The equity rally continued with domestic large caps advancing 3.1% for the week. As impressive as this was, emerging markets jumped 4.1% and domestic small caps surged 6.1%. The rally has mainly been driven by a reversal from one of the most oversold markets of all-time, combined with a Fed pivot and growing optimism on a trade deal with China. Bond yields have moved higher from their lows, while credit spreads have snapped back. This is most evident in high-yield bonds, where the trailing 10-day return of 3.6% is the largest since 2016. This coincided with the bottom in oil prices. Speaking of oil, it has jumped 23% over the last 10 days. Needless to say, high-yield bonds and oil are two of the most sensitive asset classes to marginal changes in growth.

Much of the domestic economic data is not being released due to the government shutdown. However, the jobs report was released on Friday as scheduled. The Establishment Survey showed net job gains of 312,000, which exceeded expectations. The Household Survey was more modest with 142,000 jobs added. Average hourly earnings were up 3.2%. This removed recession fears from the market, despite employment data having huge historical revisions and often being strong right before recessions. The most positive sign was that 73% of industries posted employment gains over a three-month span. This usually slips below 50% ahead of actual job losses. Job openings remain robust, but job layoffs, via the Challenger Job-Cuts Report, have shown a yearly increase for five consecutive months. This is the most since the last recession and a continued move higher would be a red flag.

Fed Chair Jerome Powell reversed course on Friday during a speech in what is being dubbed the "Powell Pivot." He made significantly more dovish comments versus what he said just two weeks earlier, following an increase in the federal funds rate in December. The bottom line is the Fed changed course and said they are watching markets and that markets, not just economic data, can alter the course of Fed action. They may also consider changing the course of balance sheet runoff, known as quantitative tightening, which is deemed most important by markets. Two weeks earlier it was on "autopilot." First-quarter earnings season is approaching and will carry tremendous weight. If earnings revisions can find a bottom, which hasn't happened yet, then equities have a solid base to move higher going forward.

Weekly Market Topics

- Economy
- Fixed Income Markets
- Equity Markets

All data is as of the above referenced date.

Interest Rates (%)	Current	12M Ago	3YR Ago
Fed Funds Rate (Upper bound)	2.50	1.50	0.50
3-Month T-Bill	2.44	1.39	0.16
10-Year Treasury	2.71	2.45	2.27
30-Year Treasury	3.00	2.79	3.02
10-Year Corporate AA	3.74	3.23	3.50
10-Year High Yield Corp.	6.62	5.31	6.26
Commodity Prices ($)	**Current**	**12M Ago**	**3YR Ago**
Gold ($/oz.)	1,293.56	1,313.21	1,061.10
Oil (WTI, $/barrel)	52.36	58.08	51.16
Currencies	**Current**	**12M Ago**	**3YR Ago**
USD (Dollar Index Spot)	95.22	92.16	98.68
USD/EUR	0.87	0.83	0.92
USD/JPY	108.17	112.51	120.55

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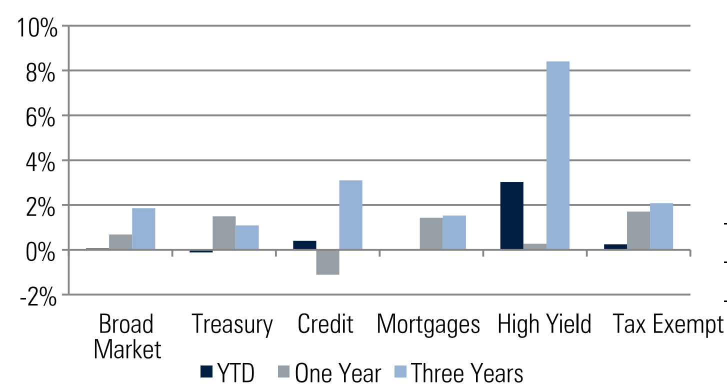
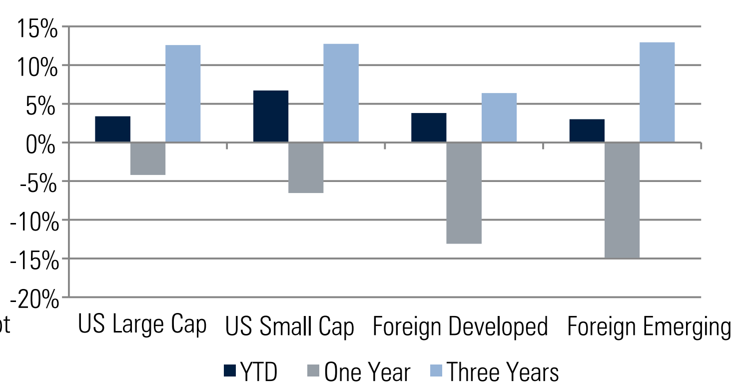
Bond Market Total Returns



Equity Market Total Returns



Source: BTC Capital Management, Bloomberg LP, Ibbotson Associates.
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