September 11, 2017

What Happened in the Markets?

- The S&P 500 rose 27 points, or 1.1% today, to close at 2,488; The Nasdaq Composite rose 1.1% while the Dow Jones rose 1.2%.

- Today's move appeared to be largely a reversal of last week's risk-off move ahead of Hurricane Irma over the weekend. All 11 S&P 500 sectors finished the day in the green with Financials, Technology, and Materials leading the market higher.

- Treasury yields rose ~8 basis points throughout the day with the 10-year Treasury moving from 2.05% to 2.13%. Other safe-haven assets sold off with gold falling 1.4% and the yen depreciating by 1.5% vs the dollar.

- European stocks also ended the day higher with the Euro STOXX 50 rallying by 1.4%.

Catalysts for Market Move

The S&P 500 rallied 1.1% today, in a reversal of last week's risk-off move ahead of Hurricane Irma making landfall in Florida; while the storm has had a devastating impact on the region, financial market risks associated with the storm appear manageable. Another popularly cited reason for the move today was the lack of another North Korean weapons test over the weekend. On the domestic political front, with the President signing a stopgap spending and debt ceiling extension bill last Friday, the immediate tail-risk of a government shutdown or debt ceiling failure appears to have been pushed out to December, and this too may have contributed to today's improvement in sentiment. All 11 sectors contributed to the gains today with Financials and Technology leading the way, finishing the day 1.7% and 1.5% higher respectfully. Both the S&P 500 and S&P 500 Technology sector closed at new all-time highs today. The broader S&P 500 sits only 3 points below its all-time intraday high of ~2,491 reached last month.

Safe haven assets across the world fell today as risk-on behavior sent these defensive assets lower. Gold fell 1.4% after making YTD highs last week.10-year Treasury Yields nearly reversed last week's entire rally, ending today 8 bps higher at 2.13%. The yen also depreciated 1.5% against the dollar ending the day at 109.5.

Later this week, two key inflation readings for the Consumer Price Index and Producer Price Index are due out, which could renew the debate on whether or not the Fed can continue to hike interest rates under the current low inflation environment. MS & Co. Economists currently expect one more hike this year in December and expect the Fed to announce balance sheet reduction plans at their next meeting on September 20th.

The Global Investment Committee's Current Outlook

The GIC continues to recommend equities over fixed income given their constructive view on accelerating global economic and earnings growth, supportive financial conditions, the potential for global fiscal stimulus and cheap relative valuations. Within equities, the GIC prefers global stocks with allocations to the US, Japan, Europe, and Emerging Markets, which have all performed well so far this year on the strongest global earnings results and equity market breadth since 2Q 2009. Throw in the possibility for US corporate tax cuts and less regulation and this is likely to remain a very favorable cocktail for equities. The GIC advocates a barbell of positioning within equity portfolios—consider deep cyclical stocks, Financials and reasonably priced growth stocks. The GIC expects high valuation and ultra-defensive/low-volatility strategies to underperform as global growth and pro-cyclical company earnings surprise to the upside. For income, they favor dividend growth over dividend yield. Risks to the GIC's bullish outlook include: 1) The Fed is further along in its rate cycle than markets acknowledge; 2) Commercial real estate and auto financing problems create larger credit problems; 3) Oil prices roll over again and move toward $40; and 4) ECB decides to taper asset purchases sooner and/or more aggressively than expected causing global interest rates to spike—Taper Tantrum II.

Market data provided by Bloomberg.

Dow Jones Industrial Average (DJIA): A price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry.

Euro STOXX 50 Index: Provides a blue-chip representation of supersector leaders in the Eurozone.

NASDAQ Composite Index: A broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

S&P 500 Index: The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks.

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Investing in foreign emerging markets entails greater risks than those normally associated with domestic markets, such as political, currency, economic and market risks.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

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Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

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Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

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