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CAPITAL MANAGEMENT

This Week in the Market
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Global Slowdown Bottoming?

The S&P 500 continued to rip higher this week and has now posted 7 straight sessions of gains. More optimism for a trade deal and better than expected jobs data drove gains. At current levels, we are roughly 23% off of the market's December lows and momentum continues to accelerate. 3 month returns are now in the 99th percentile of historical observations. Strategas points out that while stocks tend to underperform in the 30 to 40 days immediately following such a condition, the long run is decidedly more bullish. On average, the forward 12 month return is around 15% when trailing 3 month returns are in the 99th percentile. In addition, 92% of all observations produced positive returns. If that is the case, history says that any pullback should be used opportunistically.

Prospects for a trade deal and a more dovish Fed have been the main driving force behind the market this year. In the last two weeks however, signs are emerging that the slowdown in global growth may be bottoming. Last week, Chinese PMI data showed a decent pick up in manufacturing activity. This was perhaps the first indication that dramatic fiscal stimulus is working through the economy. At nearly the same time, material and industrial stocks began to accelerate, industrial metals began to outperform precious metals, emerging markets began to rally, and bond yields stopped their skid. There appears to be a notion building that forecasts for global growth may have been taken down too far, particularly if a constructive trade deal is on the horizon. To support this from a contrarian standpoint, Global Economic Surprise Indices have moved down into the 5th percentile. This condition has typically been met by a sharp reversion to the mean. Should China began to come out of its funk, it's possible that the rest of the world is coming with it. Europe in particular is dependent upon the Chinese market and any help there is a plus.

In the US, today's jobs report bolstered the idea that a recession is not imminent. Nonfarm payrolls grew by 196K in March vs. expectations for 17KK. February's dismal 20K was even revised up to 33K. Today's release brings comfort that the awful miss in February was a temporary blip caused by the government shutdown. By all accounts, consumers remain healthy as wages continue to outpace inflation. At 3.2%, wages grew slower than last month, but still are at healthy absolute levels. The Fed won't have much of a reason to cut rates if wages and jobs stay in this range, but they also won't have a reason to resume hiking. It feels like we are moving back towards a goldilocks pace of growth with a potential catalyst in the form of an impactful trade deal. If a deal with China results in accelerated CapEx like we've been expecting, it's conceivable that the curve begins to steepen as the year goes on.

With the backdrop shifting a little more positive and the long-term technical outlook bullish, cyclical sectors should have room to run. Financials, Industrials, Materials, Tech, and Discretionary all look interesting here.