

This Week in the Market

4-15-19

Earnings Impressing

The S&P 500 is knocking on the door of its all-time high at 2930. While the index traded sideways in this holiday shortened week, underlying weakness in Health Care held back strong action in cyclical sectors. Better than expected economic data releases and earnings reports have put these names back in vogue. Tech, Discretionary, Industrials, Financials, and Communications each made fresh highs this week. This action is certainly welcome and supports the movement we've seen in industrial and cyclical bellwethers over prior weeks. However, the 10 Year US Treasury remains at odds with the strong action in the equity market. In the early part of the week, yields turned higher on improving global data points, but another disappointing German PMI reading brought them back down. Ultimately, we'd like yields to track higher to confirm the risk-on tone.

Cyclical sectors are hot and the earnings reports have been backing it up. The 77 companies that have reported thus far are averaging a 4% earnings beat. Growth is slightly positive as a result. Financials kicked off this wave of good news as loan growth and net interest margins appear to have remained intact through the winter weakness. Industrials are showing that the soft patch in economic data may have been overblown. To that end, a number of railroads reported decent top line gains in addition to their cost cutting and streamlining efforts. CSX and UNP saw strong revenue gains in their industrial cargo, though trade and weather hurt some segments. HON's strong earnings report today also lends credence to an improving economy. Its Aerospace, Building Tech, Materials, and Automation segments all posted strong revenue gains. We've got a ways to go in this earnings season, but the early data says analysts had become overly pessimistic. These beats have been rewarded and more beats should be a catalyst for the market going forward.

To support the fundamentals, economic data is showing hints of bottoming around the world. Chinese manufacturing is picking up, US retail sales have rebounded, and leading indicators are ticking higher. Strategas believes that the soft patch is likely behind us and that improvement in China has the potential to lift the sale in Europe and Japan. Data in Europe is still weak, but there is hope for a turnaround building. Leading surveys are starting to reflect this idea. The European equity market picking up as well. Luxury goods and autos have turned higher and their performance could be a sign of things to come.

On the other side of the tape, Health Care is getting drummed. Bernie Sanders' town hall meeting has investors running for the hills in this sector. The idea of a single payer system and a crackdown on drug prices is now being priced in, to some degree. Whether this is actually put into law or not is a different story, but the equity market is at least taking it into consideration. Reducing our exposure here was timely.