

# Weekly Markets Commentary

April 15, 2019



**David Joy**

Chief Market Strategist,  
Ameriprise Financial

*“While we wait further developments on the trade front, both earnings and the economic calendar become increasingly influential.”*

## Earnings and Economic Data Become Increasingly Influential

Stocks rose for the second straight week to begin the second quarter, although the gains were more muted. The MSCI All Country index climbed 0.4 percent after rising 2.1 percent the previous week, and the S&P 500 added 0.5 percent after also posting a 2.1 percent gain the previous week. In the process, the S&P crossed back above the 2900 level and now sits less than one percent below its all-time high of last September. All of the gains came on Friday as JP Morgan Chase began earnings season with a far better than expected result. Despite an array of headwinds facing the banking industry, including low rates and a flat yield curve, sluggish trading volume and soft loan growth, JP Morgan nevertheless produced a solid quarter that contributed to the rising sense of optimism among investors.

That optimism was tempered, however, by weakness elsewhere. In China, the Shanghai Composite index slipped 1.8 percent. China reported a sharp increase in its trade surplus in March, as exports surged and imports plunged. However, concerns over slumping domestic demand were somewhat assuaged by a sizeable increase in credit, as policy stimulus seems to be gaining some traction. The German DAX, whose fortunes are seen as increasingly tied to activity in China, also fell slightly, losing 0.1 percent. Flaring trade tensions between the European Union (EU) and the U.S. last week over aviation subsidies didn't help, and once again raised the specter of tariffs on EU auto exports. The FTSE 100 also edged lower, as the UK agreed to another Brexit delay.

### *Is it too Early to Celebrate Earnings Success?*

The celebratory mood that accompanied JP Morgan Chase's earnings announcement may yet prove to be somewhat premature. There seems to be a sense that second quarter earnings expectations have become so pervasively poor that aggregate results will almost assuredly exceed those diminished expectations. And that may certainly happen. Actual results typically exceed expectations.

But there is a long way to go before we will know whether that optimism is warranted. At the same time, while various sentiment surveys are currently elevated, they are not at extremes. The same is generally true of valuations. On the other hand, the VIX index of expected volatility fell to levels last seen just prior to the fourth quarter selloff, perhaps reflecting a sense of complacency.

*Bond Yields on the Rise; Investors Watching Earnings and Economic Data*

Bond yields rose sharply last week, reflecting the view that global growth has bottomed and is beginning to improve. The ten-year Treasury note yield surged higher by ten basis points over the course of Thursday and Friday, closing at 2.57 percent, its highest level in three weeks, and the yield curve steepened slightly. High yield spreads continued to contract as well, reaching their tightest level to government notes since early November, and as with stocks, almost now completely reversing the widening that began at the start of the fourth quarter. Bond yields in Germany ended the week in positive territory after spending most of the previous three weeks below zero.

While we await further developments on the trade front, both earnings and the economic calendar become increasingly influential. In the U.S. this week scheduled reports include industrial production, retail sales, flash manufacturing, leading indicators, and housing starts and permits. Closely watched will be reports from China including industrial production, retail sales, and first quarter GDP, which is expected to slow to 6.3 percent year-over-year. The advance estimate of U.S. GDP is scheduled for April 26. with a Bloomberg consensus expectation of 1.6 percent currently. From the Eurozone we will see flash manufacturing, and consumer prices, as well as flash manufacturing from Germany in particular.

On the earnings front this week, activity ramps sharply higher. Scheduled to reports include Goldman Sachs, Citigroup, Bank of America, Morgan Stanley, IBM, Johnson & Johnson and Netflix among many others.

#### **Important Disclosures:**

The views expressed are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Ameriprise Financial associates or affiliates. Actual investments or investment decisions made by Ameriprise Financial and its affiliates, whether for its own account or on behalf of clients, will not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not account for individual investor circumstances.

#### **Past performance is not a guarantee of future results.**

The S&P 500 is an index containing the stocks of 500 large-cap corporations, most of which are American. The index is the most notable of the many indices owned and maintained by Standard & Poor's, a division of McGraw-Hill.

The MSCI All Country World Index (ACWI) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 47 country indexes comprising 23 developed and 24 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Pakistan, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates, as of June 2017.

The Shanghai Composite Index is a capitalization-weighted index of all stocks on China's Shanghai Stock Exchange.

The DAX (Deutscher Aktienindex) is an index of the 30 most actively traded German blue chip stocks on the Frankfurt Stock Exchange.

The FTSE 100 is a market-weighted index of the 100 leading companies traded in Great Britain on the London Stock Exchange.

The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is a widely used measure of market risk. It shows the market's expectation of 30-day volatility. The VIX is constructed using the implied volatilities of a wide range of S&P 500 index options.

The securities listed are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell. Securities discussed may or may not prove profitable.

Indexes are unmanaged and are not available for direct investment.

Ameriprise Financial Services, Inc. Member FINRA and SIPC.