# Weekly Markets Commentary

April 22, 2019

## Investor Sentiment has Improved, But the Data Tells a Different Story

A second straight week of declines among healthcare stocks kept the S&P 500 from posting its third straight weekly gain to start the quarter, and its fourth overall. The healthcare sector fell 4.3 percent last week, after falling 2.4 percent the week prior. Its 13 percent weight in the S&P 500 was enough of a drag to pull the index lower on the week by -0.1 percent. Political risks ranging from proposals for a single payer system to drug price controls were variously blamed for the weakness in healthcare. Harder to explain is why all of a sudden these risks were deemed an immediate threat.

But healthcare stocks were not the only ones that fell last week. It was a particularly tough week for real estate, which fell 3.0 percent, and for utilities, which lost 1.6 percent. Materials and energy stocks also suffered fractional losses. These four sectors combined only account for another 14 percent of the index, however. The rest of the market continued to respond favorably to the expanding view that the global economy is slowly improving. Technology and industrials were the strongest groups last week, followed by consumer stocks and financials.

The global growth story received some welcome news from China, where a host of economic reports were better than expected. First quarter year-over-year GDP growth steadied at 6.4 percent, beating expectations of a modest decline. Credit growth surged in March, and both industrial production and retail sales improved. Unfortunately, the data from the Eurozone continued to be weak, including the latest flash estimate of manufacturing activity.

*Sentiment surveys improved, but the hard data remains quite soft*

The domestic growth story received some welcome news of its own in the form of the strongest monthly rise in retail sales since September 2017. Despite robust labor markets, tame inflation and rising asset values, consumers have been rather parsimonious with their spending of late. Retail sales had fallen in two of the previous three months. But consumer spending is showing evidence of thawing out with the warmer weather. That was less evident in the housing sector, however, as housing starts failed to meet expectations. The flash Purchasing Managers' Index data was also less than inspiring, as manufacturing was steady, but services activity slipped.

The U.S. economic calendar is topped this week by the first estimate of first quarter GDP. There is a wide range of expectations, but there seems to be agreement that the quarter got better over time. No doubt the government shutdown, trade talks and cold weather had something to do with that. The

**David Joy**
Chief Market Strategist,
Ameriprise Financial

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Atlanta Fed GDPNow model was forecasting growth for the quarter of just 0.5 percent as recently as mid-March. It now estimates growth of 2.8 percent, a dramatic improvement. Others are expecting somewhat slower, but still respectable growth. The Bloomberg consensus forecast assumes 2.2 percent, which would match the pace of the fourth quarter. The Philadelphia Fed's Survey of Professional Forecasters, published back on March 22, assumes 1.5 percent, as does the April 1 Wall Street Journal Economic Forecasting Survey. Also scheduled are the monthly readings for new and existing homes sales, and durable goods orders. The global calendar is light this week.

*Earnings season is now well underway*

According to Factset, with 15 percent of the S&P 500 having reported, the first quarter earnings decline is now estimated at -3.9 percent, an improvement from the -4.3 percent from last week. This week, more than a quarter of the companies in the index are scheduled to report, including Proctor & Gamble, Coca-Cola, United Technologies, Verizon, eBay, Caterpillar, Microsoft, Facebook, Tesla, 3M, Amazon, Intel, Visa, Ford, UPS, ExxonMobil and Chevron.