After The Close

Yield and Growth Concerns Pressure Stocks, Moving Closer to 2/10 Inversion Territory

Justin H. Burgin, *VP-Equity Research*
March 22, 2019

Lower Yields and Weak Econ Data Spur Market Sell-Off

The combination of weak economic data and a surprise 'pivot' from the Federal Reserve earlier in the week helped push global bond yields lower, in turn pressuring U.S. stocks. Major indices, including the S&P 500, Dow Industrials and Russell 2000 (small cap) all gave up gains made earlier in the week.

Major Domestic Equity Indices - Today

Benchmark	Index Level	Net Change	% Change
S&P 500 Index	2,800	-54.2	-1.9%
Dow Jones Industrial Average	25,502	-460.2	-1.8%
Russell 2000 Index	1,505	-56.5	-3.6%
NASDAQ Composite	7,642	-196.3	2.5%

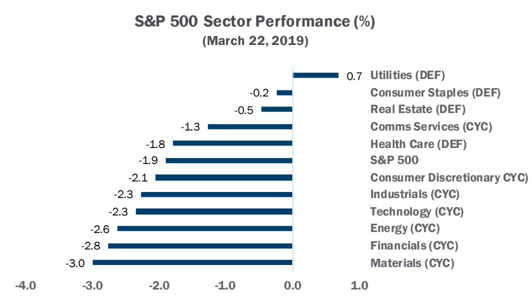
All data via FactSet as of approximately 4 PM ET

On Wednesday (3/20), the Federal Reserve announced it would likely not raise short-term interest rates in 2019 and hinted at possibly only one rate hike in 2020. This was a significant change from December when the Fed expected at least 2 additional rate hikes in 2019, with the possibility for more hikes in 2020. In our view, this 'pivot' reflected the combination of slowing economic data (both domestically and abroad), the market weakness in Q4'18 that impacted consumer sentiment, and overall muted expectations for inflation.

Compounding the Fed's dovish stance (which makes investors question the underlying health of the economy), various economic reports indicate moderating global growth. In the U.S., the IHS Markit Manufacturing PMI (purchasing managers index) came in below expectations, hitting a 21-month low, suggesting weaker manufacturing activity at the end of Q1'19. In Europe, the Eurozone Composite PMI hit a two-month low, and the German Composite PMI came in below consensus, both impacted by weak manufacturing.

We also believe the inversion (short-term rates above long-term rates) of the U.S. Treasury yield curve was a headwind for equity markets. Specifically, with bond prices rising on the heels of the Fed's 'pivot' on short-term rates, this pushed yields lower across the curve. For example, three month Treausry yields of 2.47% are now inverted with the 10-year Treasury yield of 2.44%, a phenomena that has not taken place since 2007. Similarly, the spread between the closely-watched 2-year and 10-year Treasury yield reached its lowest intraday level since 2007. The "worry" about a yield curve inversion reflects the mis-match between the Fed-induced short-term rates and investor appetite for yield 10-years out. Theoretically, in an expanding economic environment, yields on 10-year Treasury bonds should rise to reflect higher inflation expectations and overall economic growth. We also note the "risk-off" sentiment in the market can be seen in the performance of the small-cap indices as well as the Tech-heavy NASDAQ Composite. Specifically, the Russell 2000 Index was down 3.6% while the NASDAQ Composite was off 2.5%--both posting weaker results versus the broad-based S&P 500 Index which declined 1.9%.

Sector performance also reflected a cautionary tone. As the chart below shows, defensive areas of the economy (Utilities) were the day's best performing sectors. Conversely, sectors closely tied to interest rates (Financials) and global growth (Energy and Materials) generated the worst daily performance.



Source: FactSet, American Enterprise Services, Inc.

Committee View

Despite increased market volatility and uncertainty over global growth, we remind investors that equity markets have been strong year-to-date following a challenging Q4'18 period. Specifically, the S&P 500 Index is up 14% year-to-date total return, posting one of the strongest starts to a year in recent history. Additionally, certain technical factors may be in play as today's action on the S&P 500 closed at a key level of 2,800.7—a level that took the market four attempts to break through. Nevertheless, we continue to believe a diversified portfolio that includes fixed income (that has been performing well in the market swoon) as well as equities across various sectors can help smooth the volatility of the markets.

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Ameriprise Financial
1441 West Long Lake Road, Suite 250, Troy, MI 48098
Investment.research.group@ampf.com
For additional information, or to locate your nearest branch office, visit ameriprise.com

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