

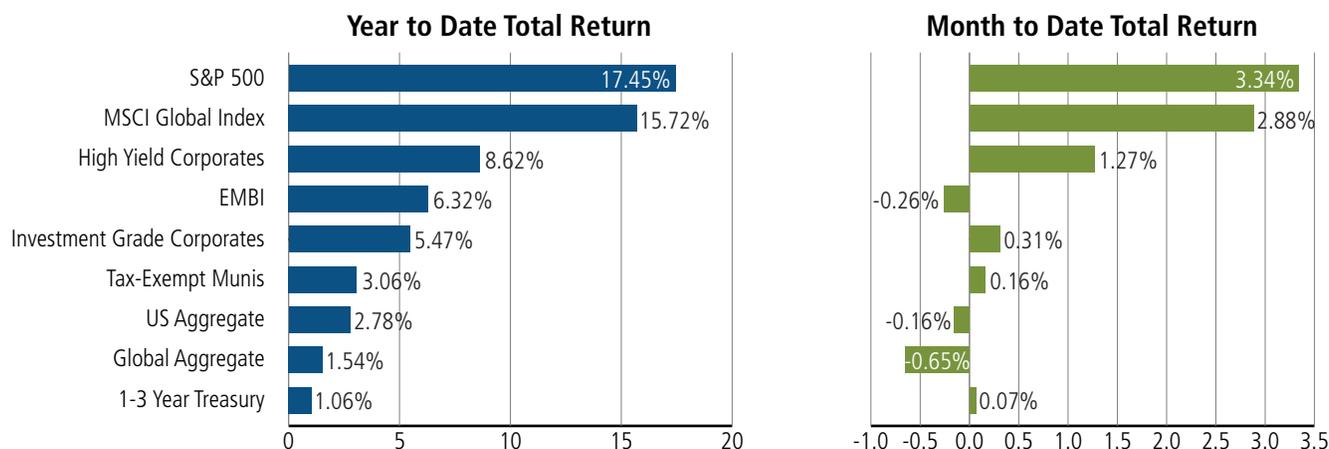
Week Ending April 26, 2019

Boy, That Escalated Quickly.

Economic Overview:

On December 24, 2018, the S&P 500 index was down almost 20% from its peak. Far from enjoying the Holiday cheer, many investors worried the Federal Reserve had ended the business cycle and upended financial markets with a noxious cocktail of rate hikes and quantitative tightening. [Well, this week, just 81 days later, the index hit an all-time high.](#) While we've seen other large drawdowns and recoveries during the current cycle, none matched the present one in terms of the magnitude of decline and rapidity of ascent. Often investors seek macroeconomic explanations for market moves. More often than not, though, macro analysis devolves into post hoc story-telling. In some ways, the global macroeconomic data look worse today than in December 2018. So, while we're upbeat on global prospects, we must remain consistent in our view that the rapid fall (and subsequent rise) in stocks tells us little about the economy.

Total Returns by Asset Class



Highlights of the Week:

- Currencies:** The Canadian dollar took a plunge this week after the Bank of Canada became the latest global central bank to adopt a dovish stance on interest rates. On Wednesday, the central bank announced it will maintain its accommodative policy, citing slowing economic growth as the reason. The shift to a neutral bias on interest rate moves increased the expectations of a potential rate cut over the next year, which resulted in the loonie selling off by about 0.85% against the U.S. dollar on the week.
- Corporates:** Occidental Petroleum made their offer for Anadarko Petroleum official, kicking off a potential bidding war with Chevron. Occidental's offer is worth roughly \$76 per share, (40% stock, 60% cash) which is a ~20% premium over Chevron's offer of \$65 per share (75% stock, 25% cash). Both companies are attempting to expand their footprint in the Permian basin after oil prices have rallied 39% this year.
- Securitized Products:** Senator Elizabeth Warren's student loan proposal to cancel up to \$50k in debt for people with incomes under \$100k, and Americans given the opportunity to attend public college for free certainly attracted attention. How to pay for it? The "Ultra Millionaire Tax" of course. In this era of Endgame, Game of Thrones Season 8 and Jeopardy champ, James Holzhauer, it is the U.S. taxpayer who will likely resolve the \$1.5 trillion student loan bubble.
- High Yield:** Over the long-term, high yield investors should expect fundamental factors like leverage and interest coverage to drive total returns. However, over the short-term, technical factors can also impact performance. For example, negative net new high yield bond issuance in the first quarter of 2019, combined with large inflows from retail investors, has been supportive of high yield prices this year.
- Equities:** The U.S. equity market posted a positive return for the week with the S&P 500 index reaching a new record close on Tuesday. Corporate earnings was the main event as about 150 companies in the S&P 500 reported quarterly results this week. Thus far, 77% of the companies have beaten earnings estimates with an average growth rate of +3%. Some notable positive surprises have been Amazon.com, Facebook, Microsoft, Lockheed Martin, and Starbucks. The best performing sectors this week were health care and communication services, while the worst performing sectors were energy and industrials.