May 10, 2019

WEEKLY HEADINGS

THOUGHTS OF THE WEEK

Larry Adam, Chief Investment Officer, Private Client Group

As the Friday early morning deadline (12:01 AM EST) expired, tariffs on an additional $200 billion of Chinese imports have technically gone into effect. However, as we go to press, negotiations are ongoing with the hope that a compromise can be brokered. However, rather than the "art of the deal" playing out, we are witnessing the "art of uncertainty." The situation has grown more complex this week following President Trump's Sunday tweet that not only threatened to raise tariffs from the existing 10% to 25% on $200 billion worth of Chinese goods but raised the stakes by potentially adding tariffs to an additional $325 billion dollars of Chinese imports at 25%. In total, that amounts to the potential of $575 billion in Chinese imports being taxed at 25% (~$144 billion or 0.7% of U.S. GDP). China's threat to retaliate immediately with countermeasures (not yet specified) further clouds the situation. Admittedly, we have no additional insights other than what we have shared previously into what the endgame of these complex negotiations will be, however, we borrow a few points from "The Art of the Deal" to gain some additional insights:

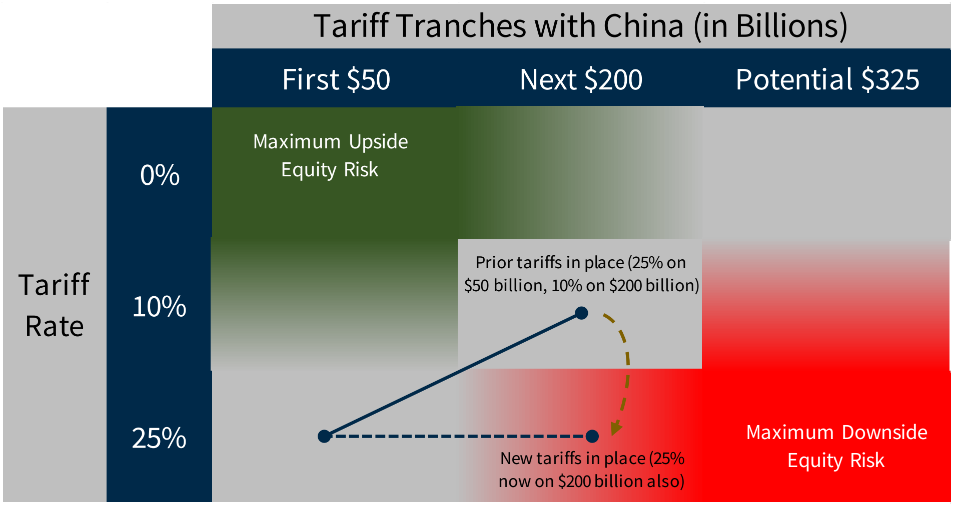
- Think Big | In "The Art of the Deal," Trump suggests "think big." The negotiations between the U.S. and China impact the two largest economies in the world, representing ~40% of the global economy. With Europe and Japan next on the docket with the May 18 deadline for President Trump's decision regarding tariffs on auto imports, that is an additional ~25% of the global economy. In total, we are dealing with approximately two thirds of the global economy when it comes to trade conflicts—that is big! As a result, an unfavorable outcome—a prolonged trade war—would place downward pressure on our global economic growth forecasts.
- Fight Back and Leverage | Trump's belief that the U.S. has been treated unfairly and has been taken advantage of in regard to trade has led to his administration's more aggressive stance. The U.S. is the largest, single most important and robust "goods" market in the world and access to it is critical for many companies around the world—a point brought up by U.S. negotiators. However, geopolitical and financial leverage is an important dynamic China has to play. China has supposedly been helpful with the North Korean nuclear discussions, has competing interests when it comes to Venezuela and Iran, and remains the second biggest holder of U.S. Treasury bonds (behind the Federal Reserve). A more cordial relationship between the two biggest economies in world could lead to a more collegial effort with many geopolitical hotspots in the world.
- Protect the Downside and the Upside Will Take Care of Itself | This may be the most important point of the book and the reason we believe a compromise will eventually be agreed upon to avoid significant trade disruption. The President needs a win to protect his downside, which is to keep the U.S. economy strong in order to bolster his re-election aspirations in 2020. Weakness in the economy, particularly from middle America (and farmers) would likely hurt his strong approval ratings on handling the economy. Similarly, China needs to maintain its momentum* as the recent soft patch that they have experienced has not been viewed favorably by the government and its people. Both leaders have a strong desire to win and portray strength on a global stage and a compromise would allow both to do so.

Will a Deal Be Struck? As we wrote yesterday, we remain optimistic a deal will eventually be struck (not necessarily today). However, with the uncertainty surrounding the outcome, we continue to believe the table below illustrates the likely direction of the equity market given various outcomes. The tariffs in place as of yesterday are represented in gray. An increase in tariffs, effective this morning as the $200 billion tariffed at 10% has gone up to 25%, are a headwind for the equity market and is likely to cause some downward pressure as long as they remain in effect. Should those tariffs be reversed or reduced, that could lead to upside pressure in the equity market whereas an increase in tariffs (the potential $325 billion tranche) could lead to further downside pressure. The timing and enforcement of these tariffs will similarly play a role in the market response. Regardless of the outcome, this topic is likely remain in the forefront for the foreseeable future as President Trump ramps up his re-election campaign.

CHART OF THE WEEK

The Dynamics of the Deal

Gray shading denotes the previous tariffs as of yesterday, while the dotted blue line reflects the updated tariffs as of today. Upside (green) and downside (red) represent the potential equity market impact given the outcome (or lack thereof) of a deal.



Source: Factset, Raymond James Investment Strategy

*See Charts of the week on page 3.

RAYMOND JAMES

Special Note: We would like to wish all the mothers a Happy Mother's Day this Sunday!

ECONOMY

- Despite on going attempts by the Trump administration to cut the trade deficit, it widened slightly in March to $50 billion from $49.3 billion in February. However, with China, the trade deficit narrowed to $20.7 billion, the lowest level since March 2014, which could bolster President Trump's claim that tariffs work and reinforce his aggressive negotiating stance with China, Europe and Japan.
- **Focus of the Week:** Consumer sentiment (Fri) and retail sales (Wed) are critical indicators in assessing the strength of the consumer, who represents two thirds of the U.S. economy. With strong employment gains, confidence should remain elevated. Consumer spending rose softly in 1Q19, held down by the partial government shutdown, poor weather, and the late Easter holiday, therefore April retail sales figures should see a modest bounce.

THE WEEK AHEAD: May 13 – May 17

MON
Leading Indicators (Japan)
Bank Loans (Japan)

TUE
Small Business Optimism
Import Prices
FDI, Retail Sales (China)
Industrial Output (China)

WED
GDP (euro zone)
Retail Sales
Industrial Production
Business Inventories

THU
Initial Claims
Housing Starts
Building Permits

FRI
Leading indicators
Consumer Sentiment
Retail Sales (Japan)

FUTURE EVENTS
5/15 USTR Hearing
5/23 European Parliamentary Elections
6/25 OPEC Meeting

U.S. EQUITY

- As a result of President Trump's trade threat and increased uncertainty surrounding trade, the S&P 500 posted its largest drawdown year-to-date (YTD), falling ~3% from the all-time high set last week.
- Throughout this drawdown, it has been the cyclically-oriented sectors that have been the hardest hit, as Materials, Info Tech and Industrials have all underperformed the broad market since President Trump's Sunday tweet.*
- Given the underlying strength of the U.S. economy, positive future earnings growth, and our expectation that the U.S. and China will ultimately come to a trade agreement, we continue to favor cyclicals over defensive sectors and would use any further period of weakness as a buying opportunity.
- Turning to earnings, with ~90% of companies having reported during the 1Q19 earnings season, 74% of companies have beaten expectations (above the previous 16-quarter average of 72%) and earnings growth has crept up to 0.9% year-over-year (YoY) (well above the expected decline of 3% at the start of earnings season).
- **Focus of the Week**: Next week will mark the unofficial end of earnings season as Walmart reports on Thursday. With few economic and earnings releases, headlines surrounding trade will likely dictate any major moves.

INTERNATIONAL

- Trump's Sunday tariff tweet created uncertainty across global markets, especially in higher beta regions, dragging down Emerging Markets (EM) by 5% since last Friday. EM has underperformed U.S. markets since the start of 2018 by 18.5%, with China alone trailing by 18.3%.* However, if the U.S. and China compromise and come to a trade agreement, global equities, especially EM equities, are likely to move higher.
- **Focus of the Week:** International geopolitical risks continue to grow with North Korea (short-range missile launches), Iran (non-compliance with nuclear agreement) and Venezuela (gov't crisis) intensifying. In addition to possible on-going China trade discussions, President Trump has until May 18 to make a decision on European and Japanese auto import tariffs. While a delay of six months is rumored, any definitive tariffs would be a negative.

FIXED INCOME

- Some major factors that influence bond pricing remain neutral: inflation (muted), central bank activity (still accommodative) and economic data (solid, but not overheating). As a result, some investors are turning to headline news which tends to initiate "knee jerk" reactions with short-term impact. Emphasis should be on disciplined long-term planning, leaving the speculative moves to other asset classes.
- **Focus of the Week:** U.S. Michigan inflation expectations (Fri) should show that consumer expectations of inflation over both the near term (next 12 months) and long term (5 to 10 years) remain at historically low levels. Also watch the spread levels of the high-yield market that have remained resilient despite the uptick in volatility.*

ENERGY

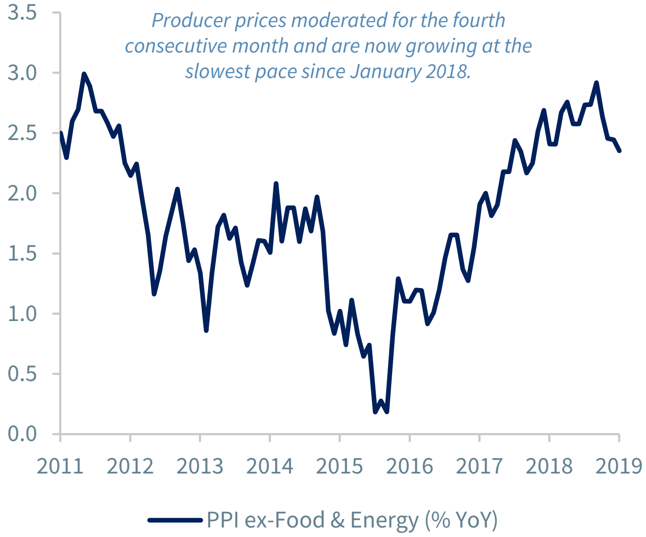
- Sentiment on oil continues to improve due to a broadly supportive fundamental backdrop: larger U.S. producers are exhibiting restraint in capital allocation; OPEC and Russia's production cuts are noticeably contributing to inventory draws, with OPEC supply at four-year lows; U.S. sanctions against Iran are about to become more impactful; the picture for global demand growth is broadly upbeat; and IMO 2020 is looming.
- **Focus of the Week:** Notwithstanding a trade war, tighter U.S. inventory levels and the approaching U.S. driving season should place some near-term upward pressure on oil prices. Our year-end target remains $70/barrel.

*See Charts of the week on page 3.

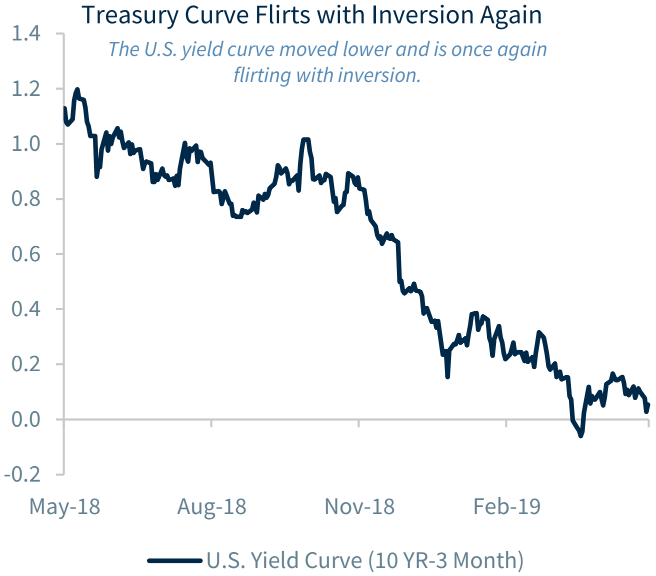
Charts of the Week

Chinese Economic Momentum Back in Question

Producer Prices Continue to Moderate



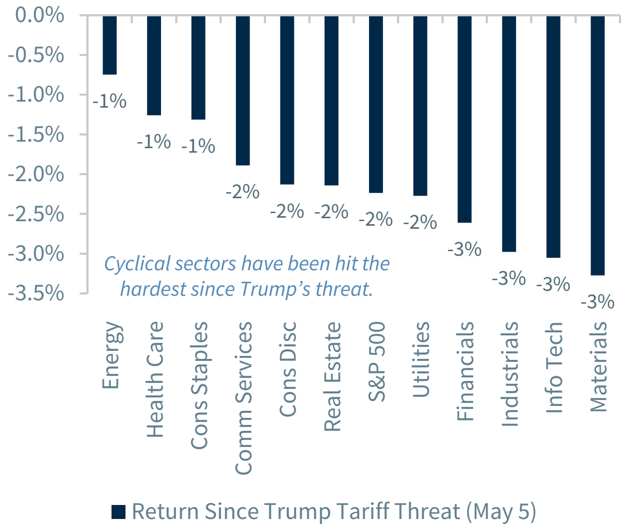
Treasury Curve Flirts with Inversion Again



High-Yield Spreads Widen Only Modestly

Chinese Equities Sharply Underperform S&P 500

Sector Performance Since Trump Tweet



Asset Class Performance | Distribution by Asset Class and Style (as of May 9)

Weekly Returns (as of May 9)

U.S. Equities (S&P indices)

	Value	Blend	Growth
Large Cap	-2.6%	-2.5%	-2.4%
Mid Cap	-2.9%	-2.7%	-2.5%
Small Cap	-2.7%	-2.7%	-2.7%

International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	-3.1%	-2.9%	-4.6%
Mid Cap	-3.5%	-2.9%	-4.1%
Small Cap	-3.3%	-2.8%	-3.5%

Fixed Income (Bloomberg Barclays indices)

	1-3 YR	Medium	Long
Treasury	0.0%	0.4%	0.7%
Invest. Grade	0.1%	0.2%	0.3%
High Yield	-0.2%	-0.5%	-0.3%

Year-to-Date Returns (as of May 9)

U.S. Equities (S&P indices)

	Value	Blend	Growth
Large Cap	13.9%	15.3%	16.6%
Mid Cap	16.5%	16.5%	16.6%
Small Cap	15.8%	14.5%	13.3%

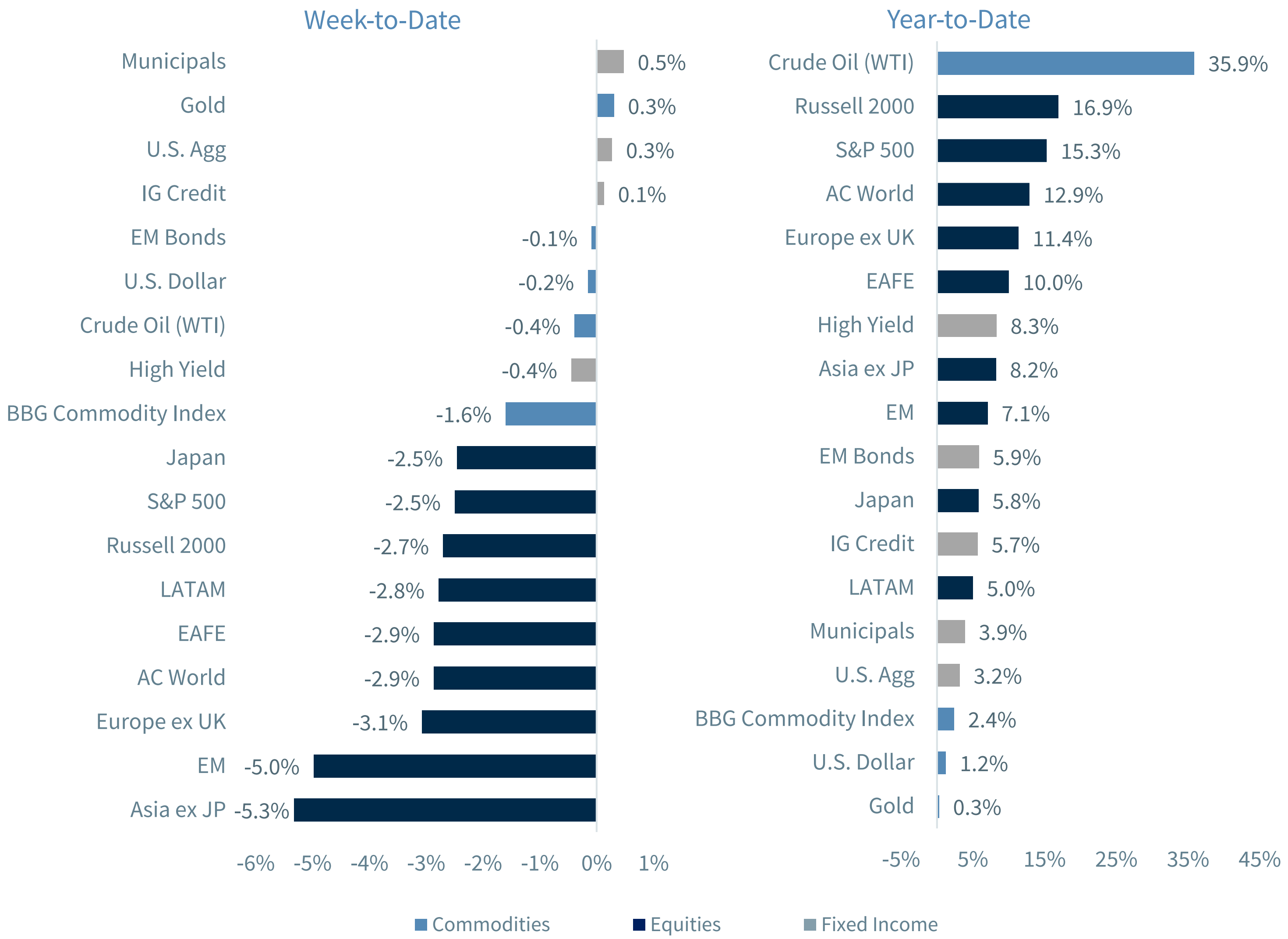
International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	10.8%	13.1%	8.5%
Mid Cap	11.1%	14.0%	4.6%
Small Cap	11.3%	14.1%	5.3%

Fixed Income (Bloomberg Barclays indices)

	1-3 YR	Medium	Long
Treasury	0.9%	2.1%	3.0%
Invest. Grade	2.0%	4.3%	5.9%
High Yield	4.7%	8.1%	12.7%

Asset Class Performance | Weekly and Year-to-Date (as of May 9)



Weekly Data

Data as of May 9

U.S Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	2870.7	(1.5)	(2.5)	15.3	8.6	14.0	10.8	15.8
DJ Industrial Average	25828.4	(1.8)	(2.9)	10.7	5.2	19.3	12.6	16.1
NASDAQ Composite Index	7910.6	(1.6)	(2.3)	19.2	7.8	19.9	13.1	19.0
Russell 1000	3059.0	(1.5)	(2.4)	15.7	13.3	14.8	11.4	15.4
Russell 2000	3902.0	(0.8)	(1.3)	16.9	4.6	13.6	8.6	14.1
Russell Midcap	5613.0	(1.3)	(2.1)	18.4	10.7	12.8	9.7	15.7

Equity Sectors

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	340.4	(3.1)	(5.3)	8.2	(4.9)	8.2	4.7	10.1
Industrials	639.3	(1.9)	(2.7)	18.7	4.8	12.4	9.3	14.5
Comm Services	164.0	(0.9)	(2.1)	18.9	19.4	3.7	5.1	9.8
Utilities	288.5	(1.7)	(3.0)	8.5	18.9	8.8	10.0	11.9
Consumer Discretionary	929.8	(1.2)	(2.3)	19.5	13.5	15.4	14.6	19.1
Consumer Staples	581.4	(0.7)	(2.0)	12.5	18.9	5.0	7.9	12.8
Health Care	1027.8	(0.7)	(0.5)	3.3	12.0	10.2	10.8	15.4
Information Technology	1331.8	(2.8)	(3.5)	23.0	11.3	25.8	19.4	19.1
Energy	471.3	0.2	(3.7)	12.2	(13.4)	2.3	(4.5)	4.3
Financials	452.7	(1.8)	(2.5)	15.3	(0.6)	15.6	11.1	11.9
Real Estate	220.8	(1.1)	(0.9)	15.9	18.1	6.7	9.1	15.9

Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Months Treasury Bill (%)	2.4	0.0	0.1	0.9	2.2	1.2	0.8	0.4
2-Year Treasury (%)	2.3	0.2	0.0	1.2	3.0	0.8	0.8	1.0
10-Year Treasury (%)	2.5	0.9	0.5	3.0	7.5	(0.1)	2.3	3.3
Barclays US Corporate High Yield	6.6	(0.4)	(0.4)	8.3	6.2	7.9	4.7	9.6
Bloomberg Barclays US Aggregate	3.0	0.4	0.2	3.2	5.9	1.9	2.6	3.7
Bloomberg Barclays Municipals		0.5	0.6	3.9	6.2	2.7	3.6	4.5
Bloomberg Barclays IG Credit	3.6	0.3	(0.0)	5.7	7.0	3.3	3.5	6.2
Bloomberg Barclays EM Bonds	5.3	0.1	0.0	5.9	7.5	4.9	4.4	7.6

Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTI Crude ($/bl)	61.7	(0.1)	(3.3)	36.7	(13.3)	12.4	(9.2)	0.5
Gold ($/Troy Oz)	1286.1	1.2	0.3	0.6	(2.1)	0.5	(0.1)	3.6
Dow Jones-UBS Commodity Index	78.6	(1.4)	(2.5)	2.4	(12.8)	(1.3)	(10.4)	(4.2)

Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
U.S. Dollar Index	97.4	(0.5)	(0.1)	1.2	4.7	1.1	4.0	1.7
U.S. Dollar per Euro	1.1	0.4	0.2	(1.8)	(5.3)	(0.5)	(4.0)	(1.8)
U.S. Dollar per British Pounds	1.3	(0.1)	(0.1)	2.2	(4.1)	(3.3)	(5.0)	(1.4)
Japanese Yen per U.S. Dollar	109.6	(1.8)	(1.6)	(0.1)	(0.1)	0.4	1.5	1.0

International Equities

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	509.3	(2.2)	(2.8)	12.9	1.8	11.6	6.9	10.6
MSCI EAFE	1860.0	(2.5)	(2.9)	10.0	(5.5)	7.8	2.5	7.4
MSCI Europe ex UK	1908.9	(2.9)	(3.5)	11.4	(5.7)	7.8	1.9	7.5
MSCI Japan	3070.6	(2.2)	(2.3)	5.8	(8.5)	7.9	6.1	6.4
MSCI EM	1028.4	(4.6)	(4.6)	7.1	(7.5)	11.7	3.2	6.4
MSCI Asia ex JP	643.3	(5.1)	(4.7)	8.2	(7.4)	12.7	5.9	8.5
MSCI LATAM	2656.1	(2.0)	(3.2)	5.0	(2.4)	11.0	(1.6)	2.4

Disclosures

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Sector investments are companies engaged in business related to a specific es presented herein are for illustrative purposes only and should not be considered as the sole basis for an investment decision. There can be no assurance that the future performance of any specific investment or investment strategy made reference to be advisors do not offer tax or legal advice. You should discuss any profitable or equal any corresponding indicated sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of a portfolio. The Citi Economic Surprise Indices measure data surprises relative to market expectations. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. MSCI EM Eastern Europe Net Return Index: The index captures large and mid cap representation across 4 Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI Japan Net Return Index: The index is designed to measure the performance of the large and mid cap segment of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan. MSCI EM Asia Net Return Index: The index captures large and mid cap representation across 8 Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. EPS: Earnings Per Share. MSCI Europe ex UK: The MSCI Europe ex UK Index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe*. With 343 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK. MSCI Asia ex JP: The MSCI Asia ex Japan Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries* in Asia. With 955 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country. MSCI LATAM: The MSCI EM Latin America ex Brazil Index includes large and mid cap representation across 4 Emerging Markets (EM) countries* in Latin America. With 55 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Value Index measures the stock of debt with yields below zero issued by governments, companies and mortgage providers around the world which are members of the Bloomberg Barclays Global Aggregate Bond Index. The Dow Jones UBS Commodity Index is a weighted index which tracks a wide range of 22 commodity futures contracts, including metals, agricultural products, energy, and livestock. The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds. The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. Russell 2000 Total Return Index: This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest U.S. companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends. Russell 1000 Total Return Index: This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends. Russell Mid Cap Total Return Index: This index consists of the bottom 800 securities in the Russell 1000 Index as ranked by total market capitalization. This index includes the effects of reinvested dividends. The Russell Midcap Index is a market capitalization weighted index comprised of 800 publicly traded U.S. companies with market caps of between $2 and $10 billion. The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners. Dow Jones-UBS Commodity Index tracks prices of futures contracts on physical commodities on the commodity markets. The index is designed to minimize concentration in any one commodity or sector. S&P 500 Total Return Index: The index is widely regarded as the best single gauge of large-cap U.S. equities. The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. An investor could lose all or a substantial amount of their investment. Investors should consider hedge funds as a supplement to an overall investment strategy. Commodities trading is generally considered speculative because of the significant potential for investment loss. Among the factors that could affect the value of the fund's investments in commodities are cyclical economic conditions, sudden political events, changes in sectors affecting a particular industry or commodity, and adverse international monetary policies. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. No investment strategy can guarantee success. There is no assurance any of the trends mentioned will continue or that any of the forecasts mentioned will occur. Economic and market conditions are subject to change. Investing involves risks including the possible loss of capital. Fixed-income securities (or "bonds") are exposed to various risks including but not limited to credit (risk of default or principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Investing in emerging markets can be riskier than investing in well-established foreign markets. Investing involves risk and investors may incur a profit or a loss. U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. Data sources: FactSet and Bloomberg.

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