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Market Perspective

Accumulate Equities on Weakness as Global Growth Expectations Reset

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Accumulate Equities on Weakness as Global Growth Expectations Reset

What Happened?

After a strong rebound from the late-December bottom, which saw global equities rise 15% with the US market rallying 19%, stocks have since pulled back 2% to 3% from their highs.

This decline has occurred against the backdrop of rising global growth concerns. The Organisation for Economic Co-operation and Development (OECD) recently cut its global growth forecasts, and the European Central Bank slashed its growth estimate for the Eurozone. Chinese economic data has been relatively weak, and the headline number in February's US jobs report surprised to the downside.

Our Take

Irrespective of the recent news and growth concerns, our view has been that stocks would face some short-term selling pressure as they approached the October and November highs (Slide 3). A period of digestion after such sharp stock gains is to be expected, especially as the near-term risk/reward becomes more mixed. Moreover, following past sharp corrections during this bull market, the typical path for stocks has been a snapback rally, followed by a pickup in volatility over the ensuing months as a battle between fear and greed takes hold. However, consistent with those prior corrections, the weight of the evidence in our work suggests stocks should eventually move higher (Slide 4). Indeed, intense and broad-based buying, akin to what we have seen over the last few months, has historically been a positive sign for stocks when looking out over the next year (Slide 5).

While data has been relatively weak, and we continue to anticipate moderating economic activity, our sense is that global growth expectations may be nearing a trough. Indeed, the economic surprise indices for developed and emerging markets, which track how economic data is coming in relative to consensus expectations, are now near the low end of multi-year ranges (Slide 6). This is important. After economic data surprises to the downside for a sustained period, cuts to economic forecasts tend to accelerate, as we have seen recently. Eventually, this resets the bar lower and sets the stage for better data relative to depressed expectations.

Moreover, we continue to expect China's stimulus measures taken over the past six months will be reflected in better data in the coming months. In totality fiscal stimulus now exceeds the amount of government support provided during the early-2016 global slowdown (Slide 7 and *Global Perspective: The Many Shades of China Stimulus, 3/4/19*). If China's economy stabilizes, as we anticipate, this should be a positive for global growth and China's trading partners, such as Japan and Europe.

Recent data is also painting a softer picture for first quarter US economic growth. This has been a reoccurring pattern in recent years. The first quarter has averaged growth of just 1.3% since 2010. This is significantly less than the other quarters, which have each averaged more than 2.0% (Slide 8). Our view is the US economy remains on solid footing, albeit growing at a slower pace than the stellar 2018 rate (*Economic Commentary: Blurry Jobs Picture in February, 3/8/19*).

Bottom Line

The recent market action is consistent with history and our expectations. After such a strong rebound, a period of digestion is normal.

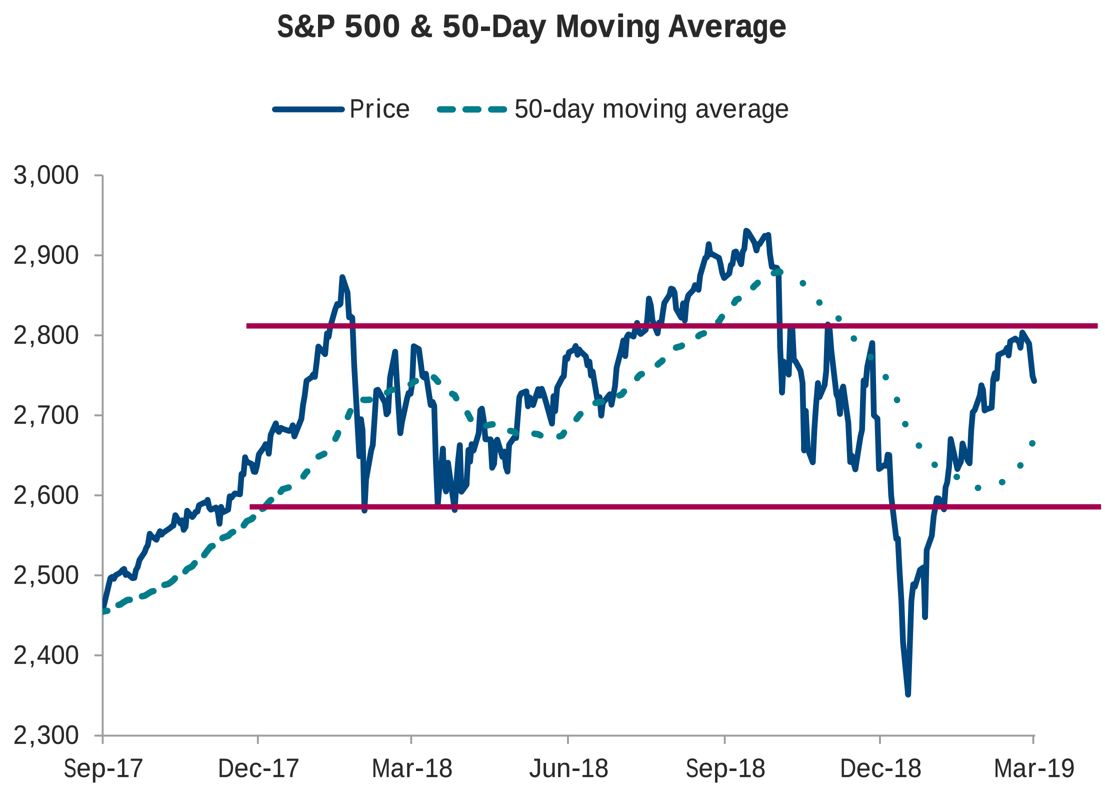
Our view is forecasts have already gone a long way toward resetting the bar lower for global economic growth expectations which appear to be nearing a trough. Consequently, we advise investors who are underweight their target allocation to use periods of market weakness to accumulate equities. Areas we continue to favor are US large caps and mid caps, and emerging markets as highlighted in our 2019 outlook.

S&P 500 Price Support & Resistance Levels

Consistent with our expectations, the S&P 500 encountered some selling pressure as it tested the October and November highs in the 2,800 to 2,815 range. This is to be expected after a nearly 20% rise from the late-December low.

We see near-term support for the S&P 500 around the rising 50-day moving average* (2,675) and the 2,575-2,600 area.

While a full test of the December low is always possible, we do not see that as the most probable outcome. The broad-based buying following the December market low and the Federal Reserve moving to the sidelines in the near term make this scenario less likely.



Past performance does not guarantee future results

*The 50 day-moving average is simply a security's average closing price over the past 50 trading days. This is popular technical indicator and a measure of trend. In general, a stock price trading above its 50-day moving average is viewed as a positive sign and denotes a security that is trending higher.

Data Source: FactSet, SunTrust IAG

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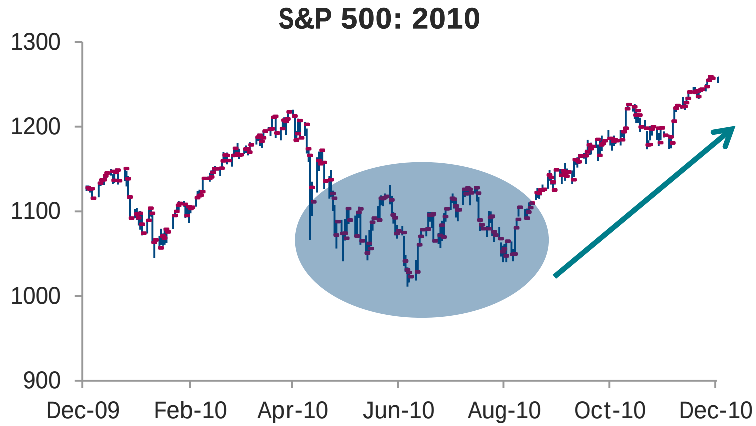
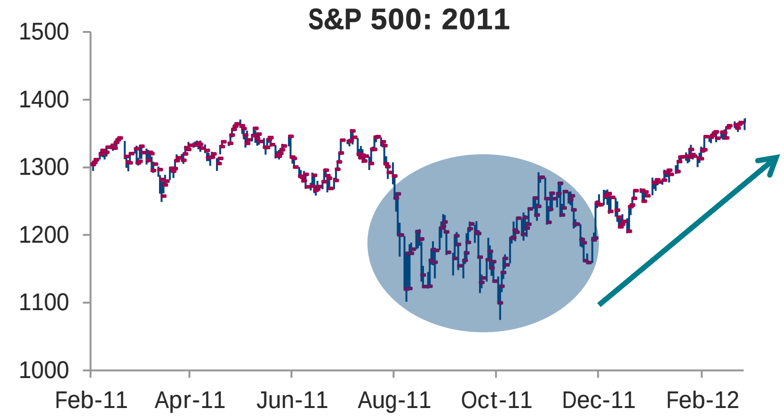
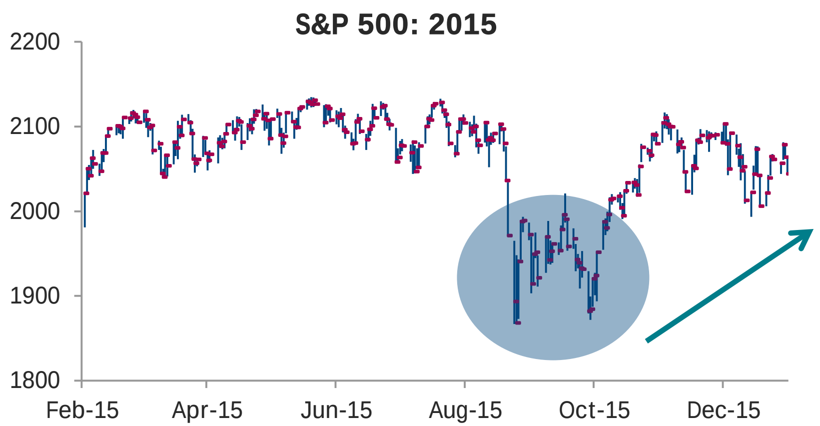
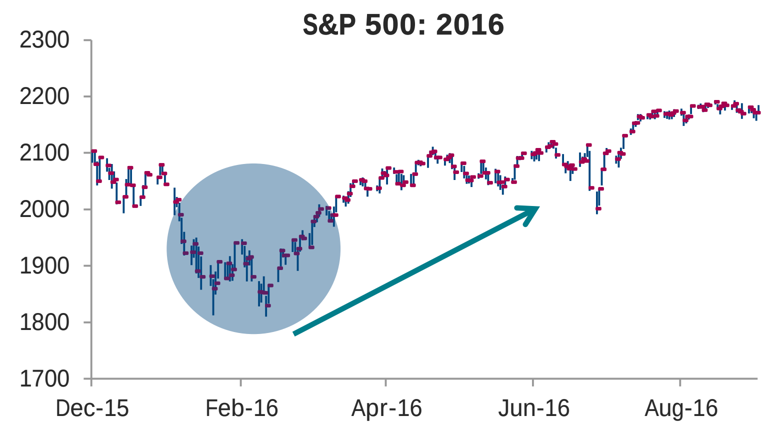
Path After Sharp Equity Corrections During This Cycle

After sharp selloffs during this market cycle (and prior cycles), volatility tends to remain elevated over the next few months as a battle between fear and greed takes hold. However, consistent with history, we expect prices to eventually move higher.









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Data Source: FactSet, SunTrust IAG

Broad-Based Buying Seen in February Has Typically Been a Good Longer-Term Signal

During the market rally from the late-December bottom, there was very broad-based and intense buying. The majority of stocks participated in the rally. This is a healthy sign.

Indeed, by mid-February, the percentage of stocks in the S&P 500 trading above their 50-day moving average price breached 90% for only the 15th time since 1990*.

Following past signals, the S&P 500 was higher one year later in 13 of 14 instances, with an average gain of 16%.

S&P 500 Performance After 90% of Stocks Trade Above Their 50-Day Moving Average

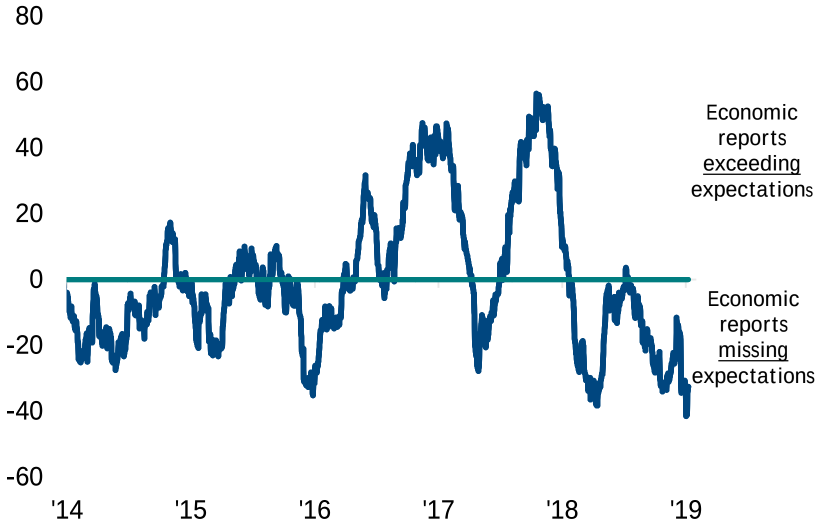
	3-Months Later	6-Months Later	12-Months Later
02/06/91	5.7%	9.1%	15.6%
06/09/97	7.9%	14.0%	29.6%
03/24/98	1.3%	-6.9%	14.7%
11/05/98	9.7%	18.2%	20.8%
05/05/03	6.1%	13.4%	20.8%
11/12/04	1.9%	-1.6%	4.3%
05/04/09	8.8%	17.5%	32.5%
08/03/09	3.3%	10.0%	12.3%
04/01/10	-12.8%	-2.8%	12.0%
10/05/10	9.6%	14.8%	-5.3%
10/24/11	5.7%	10.9%	12.7%
01/18/13	5.1%	14.1%	24.1%
05/15/13	1.6%	6.6%	12.8%
03/16/16	2.2%	4.9%	17.7%
02/15/19	?	?	?
Average	**4.0%**	**8.7%**	**16.0%**
Median	**5.4%**	**10.5%**	**15.2%**
% Positive	**93%**	**79%**	**93%**
Max Gain	**9.7%**	**18.2%**	**32.5%**
Max Loss	**-12.8%**	**-6.9%**	**-5.3%**

Past performance does not guarantee future results
*Only first reading used (clusters removed)
Data Source: FactSet, SunTrust IAG

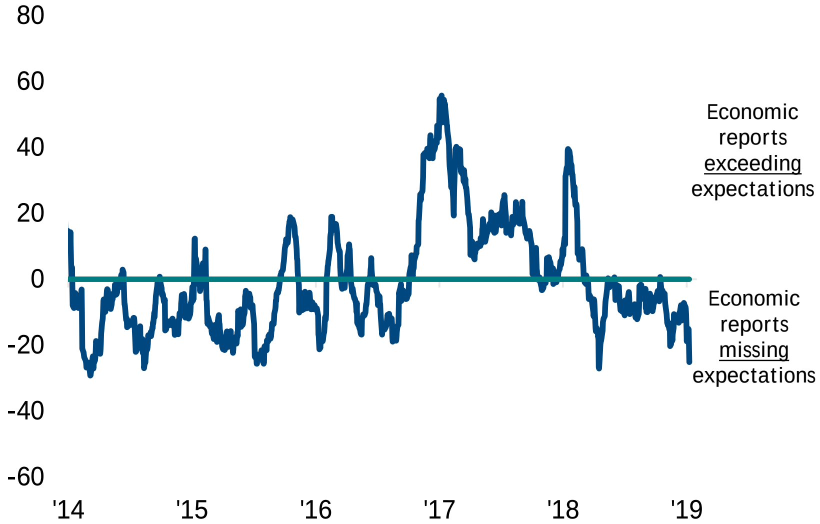
Global Economic Expectations Have Been Reset

The Citigroup Economic Surprise Indexes, which track how economic reports are coming in relative to economists' expectations, indicate that global data has been tracking below consensus expectations. Consequently, these indexes have moved toward the lower end of their multi-year ranges. This is important. After economic data surprises to the downside for a sustained period, cuts to economic forecasts tend to accelerate, as we have seen recently. Eventually, this resets the bar lower and sets the stage for better data relative to depressed expectations.

Developed Markets:
Citi Economic Surprise Index



Emerging Markets:
Citi Economic Surprise Index

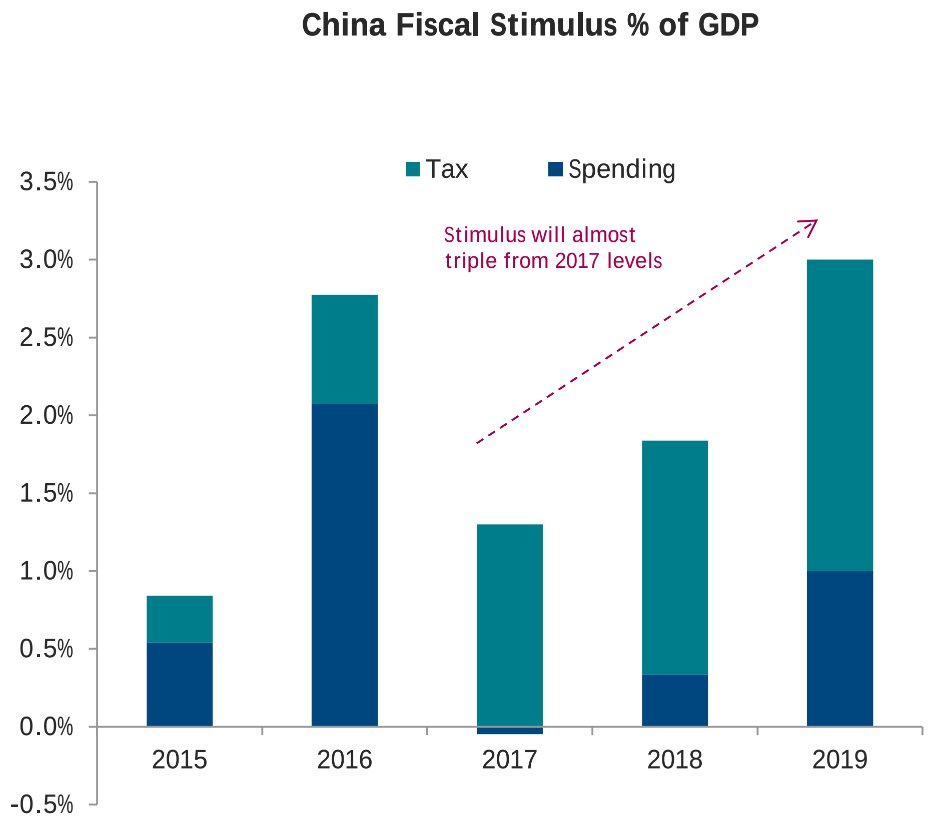


Past performance does not guarantee future results
Data Source: FactSet, SunTrust IAG

Ramp Up in Chinese Fiscal Stimulus Should Help Stabilize China's Growth and the Global Economy

The Chinese stimulus measures already taken represent about 3% of the overall economy. With a lagged effect, we expect this should lead to stabilization in China's economy, the world's second largest, in the months ahead. If data does not improve, we expect that the Chinese government will enact further stimulus measures.

If China's economy stabilizes, as we anticipate, this should be a positive for global growth and China's trading partners, such as Japan and Europe.



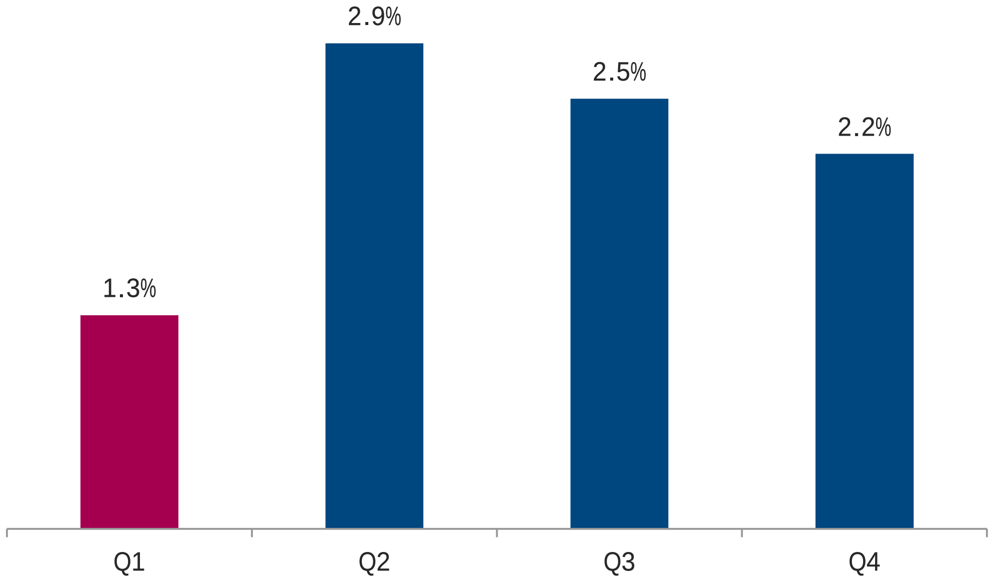
Source: Cornerstone, SunTrust IAG

US GDP Should Bounce Back from Softer Start

Recent data is painting a softer picture for first quarter US economic growth. This has been a reoccurring pattern in recent years. The first quarter has averaged growth of 1.3% since 2010, which is significantly less than the other quarters, which have each averaged more than 2.0%.

Our view is the US economy generally remains on solid footing, albeit growing at a slower pace than the stellar 2018 rate, aided by a healthy consumer and government spending.

Seasonality of US Economic Growth: Average GDP Growth by Quarter: 2010-2018



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