

With relatively little economic data to hang our hat on this week, market participants will be particularly sensitive to developments on the political front - with focus on US / China trade, tensions in the Middle East, as well as Brexit headlines and political posturing in Italy.

On the corporate front, retailers including Home Depot (HD), TJX Companies (TJX), Kohls (KSS), Nordstrom (JWN), Lowes (LOW), Target (TGT), Tiffany (TIF), Best Buy (BBY) and Footlocker (FL) will give a read on the state of the retail space and US consumer.

Several Fed officials also speak throughout the week.

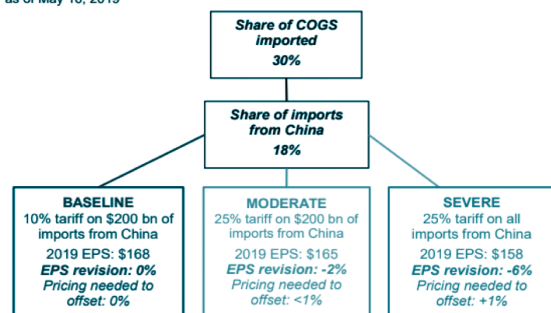
Our tactical model remains bullish (100% equity invested).

MONDAY MAY 20, 2019	
Chicago Fed National Activity Index	
Fed Harker Speech	
Fed Clarida Speech	
Fed Williams Speech	
Fed Chair Powell Speech	
Fed Clarida Speech	
TUESDAY MAY 21, 2019	
Fed Evans Speech	
Fed Rosengren Speech	
WEDNESDAY MAY 22, 2019	
Fed Bullard Speech	
FOMC Minutes	
THURSDAY MAY 23, 2019	
Initial Jobless Claims	
Markit Composite PMI	
Fed Kaplan Speech	
Fed Barkin Speech	
Fed Bostic Speech	
FRIDAY MAY 24, 2019	
Durable Goods Orders	

## GAUGE OF THE GRADE



**Exhibit 1: Sensitivity of S&P 500 consensus EPS to tariffs**  
as of May 16, 2019



Source: Goldman Sachs Global Investment Research

The adjacent chart, courtesy Goldman Sachs, illustrates that S&P 500 companies import roughly 30% of COGS, with imports from China comprising 18% of total US imports in 2018. The three boxes at the bottom of the chart show three scenarios. If 10% of tariffs remain on \$200b of Chinese imports, EPS forecast remain unchanged. If the 25% tariffs on \$200b of Chinese imports are maintained, companies will need to raise prices less than 1% to offset tariffs, impacting EPS by 2%. Finally, if a 25% tariff is imposed on all Chinese imports, companies need to raise prices more than 1% and EPS estimates would need to be revised lower by 6%. In the worst-case scenario, all else equal, if the P/E multiple were to fall to the 10-year rolling P/E of 16.7x, at the 6% lower EPS estimate of \$158, the S&P 500 fair value would fall to 2,638 (approximately 9% below Friday's close).

SECTOR RETURNS					
	5 DAYS	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
Basic Materials	-1.3	-5.8	-1.0	-0.9	-9.6
Communication Services	-0.1	-0.7	5.6	9.5	6.5
Consumer Cyclical	-1.4	-3.2	4.7	7.8	7.8
Consumer Defensive	0.7	1.4	6.2	4.1	17.7
Energy	-0.6	-5.9	-3.1	-5.0	-18.7
Financial Services	-2.1	-1.7	1.8	2.1	-3.2
Healthcare	-0.6	3.0	-4.3	-2.6	7.0
Industrials	-1.9	-3.2	-0.2	5.1	1.6
Real Estate	1.2	3.6	4.0	10.8	21.0
Technology	-1.2	-2.9	7.8	12.4	139.0
Utilities	1.3	2.8	6.2	8.6	23.4



## SOWELL'S WEEK AHEAD

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