Market Summary – February 4, 2019

For the week ending February 1

This summary is provided by BMT Wealth Management.

Equity Markets Recover Some of the 2018 Damage

The fourth quarter 2018 correction in the global equity markets is etched in the annals of history, as well as in investor memories. It remains to be seen whether the current uptick is sustainable or if it is a bounce off extremely oversold levels. Regardless, equity markets have advanced significantly since their Christmas Eve 2018 lows.

Domestically, the S&P 500 Index has advanced about +15.33% since the December 2018 low-water mark. Meanwhile, smaller cap stocks represented by the Russell 2000 Index are ahead by +18.71%. It should be noted, however, that the Russell 2000 Index declined -20.20% in fourth quarter 2018 and -11.88% in December 2018 alone.

On the international front, developed markets rebounded a more modest +7.66%[1] and emerging market equities advanced +10.46%[2] from their December 2018 lows. Equally important to note is that international equity markets fell less than domestic equity markets in the fourth quarter 2018.

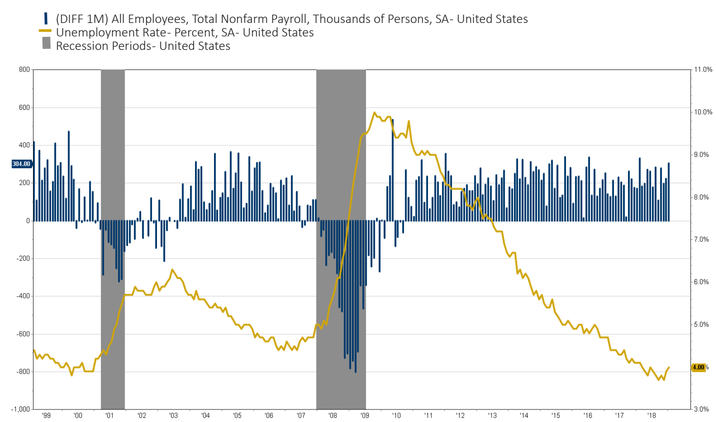
[1]Measured by MSCI AEFE. [2]Measured by MSCI EM.

Labor Market Remains Healthy

Employment data was released on Friday (February 1, 2019) that reflects activity through January 2019. The Bureau of Labor Statistics (BLS) reported an increase of +304,000 new jobs created in the month, an indication that the year started where 2018 left off, despite the effects of the partial government shutdown.

There was an upward revision to the November 2018 data and a more meaningful downward revision to the December 2018 report; however, the three-month moving average is a strong +241,000 new jobs created on a monthly basis. The unemployment rate ticked up slightly from 3.9% to 4.0%, mostly a reflection of a large increase in job hunters.

U.S. Change in Nonfarm Employment & Unemployment Rate
(20 Years Ended January 31, 2019)



Source: FactSet, Inc.

We expected strong employment to continue, along with upward pressure on wages, as noted in our Winter 2019 Economic & Financial Market Outlook. Wages rose +3.2% for the 12 months ended January 31, 2019.

More Earnings and Less Fed

The fourth quarter 2018 earnings reporting season was in full swing last week, now with 46% of S&P 500 companies having reported full year and/or quarterly results. On a year-over-year basis, the blended growth rate in earnings is +12.4%, lower than the rest of 2018 but still quite strong. At the top line, sales and revenue, the year-over-year comparison is +6.3%. We expect earnings growth to decelerate to the high single digits level in 2019.

On the monetary front, based on the most recent Federal Open Market Committee (FOMC) statement and comments from Chair Jerome Powell as well as other Fed governors, the central bank is essentially pushing the pause button on further tightening (rate hikes). Saint Louis Fed President James Bullard described the FOMC as being in a "wait and see" mode.

Historically, financial assets, particularly bonds, react favorably to a dovish Fed and tend to perform well in the wake of a Fed pause on interest rate hikes. The cautionary tone has certainly been a welcomed tonic for capital markets, as noted by the recent positive price behavior. However, we also want to place a measure of caution in to this equation, as it raises the potential for asset bubbles to develop, leading to bouts of heightened volatility.

As we move through 2019, we will continue to carefully monitor these events. We reiterate our call to build diversified portfolios and frequently revisit your investment objectives as to return, tolerance for risk (volatility), and time horizon.

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