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LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

Investors breathed a sigh of relief as stocks reversed their 4th quarter decline and surged ahead in the new year. Large stocks in the S&P 500 index climbed 8.0% in January. Small cap stocks in the Russell 2000 index were up double digits at 11.2% for the month. International stocks in the MSCI EAFE index were not up as much but still had a 6.6% gain. Emerging market stocks had better returns at 8.8%. Bond yields were slightly lower for the month so the Barclays US Aggregate Bond Index had a positive return for January of 1.1%.

Companies have started reporting their 4th quarter earnings. Of the S&P 500 companies that had reported, 71% have beaten their earnings estimates and 49% have beaten their revenue estimates. Earnings growth is expected to be around 15% year over year. Energy, financials, materials and healthcare have reported the higher growth.

The first reading of US GDP growth in the fourth quarter has been delayed due to the government shutdown. Analysts had been projecting 2.4%. The economic effects of the shutdown on first quarter GDP are unknown at this time but the uncertainty likely slowed spending on both a personal and business level due to delayed decision making. JPMorgan is currently estimating the first quarter GDP will be around 1.5% and the full year GDP growth will be around 2% in 2019.

Some investors have been worried that a recession may be looming. JPMorgan does not share that fear at this time. David Kelly, their chief strategist, notes that cyclical sectors are not over-exuberant so the cyclical risk is not present. He also notes that inflation is not a risk at this time as it is below the Fed's target and expected to stay that way in 2019. In addition, unemployment claims are still low and the strong growth from mid-2018 is still generating jobs. He also estimates the impact of the government shutdown may be $3 billion which is very small compared to the $21 trillion economy.

The global economy is starting to show some signs of weakness. The PMI (Purchasing Managers Index) fell for Japan and Europe and China has been slowing as well. Global trade tensions are resulting in people and companies having a wait and see approach in their decision making and planning. JPMorgan expects that the US and China should come to some sort of agreement by March.

The Federal Reserve has turned decidedly more dovish in January. They have removed their "further gradual increases" wording and instead used "adjustments" which could mean movement up or down in rates. The committee also said it would be "patient" and have a "wait and see" approach". Some analysts now believe the Fed is done with rate hikes and the Fed Funds rate will remain at 2.25% to 2.50% for all of 2019. The yield on the 10-year Treasury Bond was 2.63% at the end of January.

Markets will likely continue to see increased volatility in the coming months. If you have special needs for cash coming up, please let us know so we can plan ahead. If you have any questions about your account, do not hesitate to contact us