ECONOMIC UPDATE March 2019

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Stocks continued their climb in February in an attempt to regain ground lost in December. Large stocks in the S&P 500 index climbed 3.2% in February. Small cap stocks in the Russell 2000 index were up 5.2% for the month. International stocks in the MSCI EAFE also made gains for the month up 2.6% while emerging markets stocks were only slightly higher, up just 0.2%. Bonds posted negative returns with the Barclay's U.S. Aggregate Bond index slightly lower, down -0.1%.

Corporate earnings for US stocks for the 4th quarter are on track for double digit growth for the 5th straight quarter. While the rate of growth has slowed relative to the first 3 quarters of the year, earnings are still on pace for a growth rate above 13% for the S&P 500. This slow down in the rate of growth has long been expected. It is also expected that earnings will decline this quarter according to MarketWatch.

After being delayed due to the government shutdown, 4th quarter GDP was reported this month to have grown by an annual rate of 2.6%. For the full year 2018 GDP grew at the fastest pace of any calendar year since 2005. GDP growth is expected to decelerate in the 1st quarter of 2019 to an annualized rate around 1.9% quarter-over-quarter according to Strategas.

Recession worries eased in February as leading indicators improved during the month. Notably, consumer confidence turned sharply higher in February after dipping a month earlier due mostly to the stock market correction. Now that stocks are recovering, consumers are refocusing on labor markets and other factors that have been a source of optimism. Other factors pointing to continued growth include credit conditions, conditions underpinning robust consumer spending and a favorable employment picture. Leading indicators are not as favorable as they were prior to last September but still are not indicating recession is near.

The global economy is continuing to show signs of slowing. Japan is experiencing anemic growth ahead of a planned VAT tax increase in October. Europe and China have been slowing as well. Global trade tensions are resulting in people and companies taking a wait and see approach in their decision making and planning. A trade agreement between the U.S. and China appears to be on track for later this month.

The Federal Reserve has confirmed their dovish stance this month in their release of the minutes from the January FOMC meeting. Specifically, the minutes noted that "Participants pointed to a variety of considerations that supported a patient approach to monetary policy". Some analysts now believe the Fed may done with rate hikes or possibly raise the Fed Funds rate one time this year.

Now that stocks are back near highs, a period of consolidation seems likely. 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.

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