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Market Update: February 2019

U.S. stocks advanced 3.5% in February, closing out their best two-month start to a year (+12.4%) in over three decades. After falling 19% from early October through December 24, U.S stocks have now rebounded 20% since Christmas. Smaller companies have led the U.S. markets with 25% gains over this period.

> **Suddenly, 2018 is looking like a bad dream. Financial markets have been magically transported back to the halcyon days of early 2017 when stocks, bonds and just about everything else rose in peaceful unison.**

Russ Koesterich, BlackRock – Advisor Perspectives 2/20/19

Stock prices have responded to the general optimism surrounding a U.S.-China trade agreement, as well as to a more "dovish" Federal Reserve. Inflation continues to undershoot the Fed's 2% target, even as unemployment remains at historical lows and wages are rising by 3% year-over-year.

> **Domestically, I think we're in good shape. Unemployment is low, confidence is still at positive levels, so I feel like we have the makings of a good outlook.**

Jerome Powell, Federal Reserve Chairman – WSJ 2/28/19

The economic news overseas has been mixed. Risks of a global downturn are elevated, and China's economy and related policy responses are taking center stage. With China's interest rates essentially under state control, and investment opportunities scarce, investors have been speculating on rising property values.

China now has over 74,000 privately offered real estate funds … nearly 10 times more than were available just five years ago. Brokers are pushing these funds to their wealthy clients, contributing to China's mounting debt problems.

> **Across the country, local governments and their more than 2,000 financing companies have run up trillions of dollars of debt to borrow and build their way to prosperity. Now the bills are coming due, and China's slowing economy … and the massive scale of borrowing – are plaguing repayment and leaving some investors in limbo.**

Chao Deng – WSJ 2/27/19

Ultimately, Chinese consumers are traveling less and buying fewer cars and phones. For the latter half of 2018, real growth in consumer spending per capita declined. Despite all the economic headwinds, China still managed to post 6% growth last year.

> **Chinese regulators know they have a problem … Chinese consumption isn't collapsing, but it's definitely under pressure.**

Nathaniel Taplin – WSJ 2/15/19

Europe has its own set of issues. The economy is faced with the uncertainties involving the U.K.'s *exit* from the European Union, not to mention the "yellow vest" protests in France and Italy's escalating national debt. Since the great recession, eurozone GDP growth has been a rather anemic 0.6% per year. Italy's economy has actually been shrinking by an average of 0.5% annually.

> **The EU economy is facing an exceptional amount of uncertainties, which could weigh as well on investment and consumption more severely than currently expected. We always establish the balance of risks, and clearly this time the balance moves to the downside.**

Pierre Moscovici – EU Economic Commissioner – WSJ 2/7/19

While European stocks have participated in the current rally, many money managers are skeptical of the gains. Still, some see opportunity in Europe's discounted stock prices. The Stoxx 600 now trades at a multiple of 13.5 times forecasted earnings … versus 16.4 for the S&P 500.

> **There's way too much bearishness in Europe. Valuations point to a recession. But it's really only sentiment that points that way, not the hard economic data.**

Elias Cohen, Neuberger Berman – WSJ 2/28/19

The Treasury Department recently reported that last year's budget deficit was $870 billion. Federal revenue totaled $3.33 trillion last year, while spending totaled $4.2 trillion. The budget deficit for this year is expected to reach $900 billion, and by 2022 annual deficits are anticipated to top $1 trillion.

The U.S. national debt reached $22 trillion in February, exceeding 2018's GDP of $20.5 trillion. The federal government is projected to spend more on interest next year than on Medicaid or on children. By 2024, interest payments will equal military spending.

> **It's no longer cool to talk about the federal budget deficit … One of the reasons deficit concerns are low is that the country has been living with big federal deficits for a long while now, and the economic calamity some predicted has never materialized.**

Gerald F. Seib – WSJ 2/18/19

March could be an interesting month. A trade deal between the U.S. and China should happen any day now, not to mention a report from special counsel Mueller's investigation. And let's not forget the Brexit deadline that is scheduled for March 29.

> **March Madness this year could refer to something other than college basketball …**

Randall W. Forsyth – Barron's 2/22/19

According to Yardeni Research, the current bull market has overcome 62 panic attacks that were triggered by fears of an imminent recession that has yet to materialize.

> **The bottom line is the U.S. economy will move into a recession at some point. It's inevitable. What we don't know is the length of runway between now and the next recession.**

Liz Ann Sonders, Charles Schwab – Advisor Perspectives 2/26/19

Will the tipping point be global growth stalling out in China or Europe? Or will we get through this rough patch, only to get stifled at some future date by massive global debt levels? Your guess is as good as mine.

Be happy with the stock rebound, but be prepared for more market turbulence.

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