February Takes a Slow – yet Promising – Pace

The S&P 500 has now soared 19% since its Christmas Eve low.

While factors including the partial government shutdown and trade policy uncertainty brought us into the New Year with increased downside risks, February seemed more promising, points out Raymond James Chief Economist Scott Brown: a potential U.S.-China trade agreement appeared on the horizon and the United Kingdom is considering a revote on Brexit. The government shutdown is also behind us; however, the national emergency declaration could inject new uncertainty. According to Brown, the economic outlook is less clouded, but the pace of growth is still expected to be slower in 2019, largely reflecting the fading impact of fiscal stimulus.

For the month of February, the S&P 500, Dow Jones Industrial Average, NASDAQ and Russell 2000 Index ended up in positive territory.

	12/31/18 Close	2/28/19 Close	Change YTD	% Gain/Loss YTD
DJIA	23,327.46	25,916.00	+2,588.54	+11.09%
NASDAQ	6,635.28	7,532.53	+897.25	+13.52%
S&P 500	2,506.85	2,792.38	+285.53	+11.39%
MSCI EAFE	1,719.94	1,879.13	+159.19	+9.26%
Russell 2000	1,348.56	1,575.51	+226.95	+16.83%
Bloomberg Barclays U.S. Aggregate Bond Index	2,046.60	2,068.47	+21.87	+1.07%

Performance reflects price returns as of 4:30 ET on February 28, 2019.

Here are some of the latest movements in the economy and global markets that have our attention:

Economy

- Recent data releases – some of which were delayed due to the government shutdown – have been mixed, but job and wage growth should be supportive for consumer spending growth, shares Brown. The recent retreat in mortgage rates should help housing activity into the important spring season.
- The Federal Reserve shifted from a mild tightening bias in mid-December to a seemingly neutral policy stance in late January. Many Fed officials believe it may be appropriate to nudge short-term interest rates higher if the economy evolves as expected; however, it's unlikely to take action in the next six months, said Nick Lacy, chief portfolio strategist for Raymond James Asset Management Services.
- Fed officials had been discussing the balance sheet in 2018 and announced in January that the unwinding will likely end sooner and at a higher level than was expected earlier.
- President Trump's meeting with Chinese President Xi, tentatively scheduled for spring, may provide a market boost for both countries if they achieve meaningful progress on trade.

Equities

- The S&P 500 has continued to grind higher, now up 19% in the roughly two months since the Christmas Eve low. The rally has been very impressive and there have been only two down days of over 1%, which were quickly reversed, points out Joey Madere, senior portfolio strategist, Equity Portfolio & Technical Strategy.
- Fourth quarter earnings season is winding down; 72% of companies that have reported have beaten estimates by an average of 3.4%. The highest percentage of beats came from industrials, healthcare and technology; and the best earnings surprises came from communication services, consumer discretionary, technology and healthcare, according to Madere.
- Lacy favors defensive large-cap companies over growth-oriented ones at the moment, although small caps outperformed most other equities in recent weeks.

Fixed Income

- Right now, the net flow of asset transfers is into high quality, safe-haven assets, shares Doug Drabik, Managing Director Fixed Income Research. Maintaining a balanced allocation to offset against potential portfolio swings is very important during in times of volatility, he explains. He adds that individual bonds present one of the few "hedges" to growth assets, such as equities, as fixed income with moderate to longer duration are negatively correlated to those growth assets.

- Lacy and his team similarly favor high-quality bonds given current conditions. The prospect of a steepening yield curve has them recommending some exposure to shorter-duration bonds, as well.
- Credit spreads garnered attention after rising sharply the last quarter of 2018. Despite the sharp rise, credit spreads are largely in line with their five-year averages, Drabik reports.

International

- The generally positive climate for global investments continued in February, aided by positive noises out of the global trade discussions between the U.S. and China.
- There was less overt progress on other pressing issues, such as controlling rising European political populism and encouraging dynamism-enhancing reform legislation. These are particularly impacted by slowing global economic growth, which has increased the potential for stimulus efforts by governments and some central banks in Europe and Asia, reports European Strategist Chris Bailey.
- Talk of Brexit compromises have increased, leading to some recovery strength in the British pound during late February.
- Germany avoided falling into recession and both the Chinese and Brazilian authorities continue to talk reform.
- Valuations for global markets remain on average lower and also typically offer higher dividend yields than U.S. securities.

Bottom Line

- Madere takes a constructive view of the markets over the next year or so, but cautions investors to be patient when looking for purchase opportunities, given what he views as overbought conditions.
- We continue to encourage investors to focus on high-quality bond and equity positions that align with their long-term goals and financial plan.

We will continue to monitor economic developments and breaking headline news and will keep you updated with the most relevant information.

I’ll be in touch soon to answer any questions you may have about the markets or any other financial matter. I look forward to speaking with you.

If you’d like to discuss your plan – or have any other questions or concerns – please give me a call.

Sincerely,

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