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Money Talks

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Market Comment

After a bout of selling pressure heading into the midterm elections, our domestic market, as measured by the S&P 500, managed to regain its footing, clawing back some of the losses it suffered. At present, however, financial markets remain unsettled. Typically, as the end of year approaches, investors' moods tend to be cheery as consumers head to the stores and festivities gain traction. Market participants could definitely use a dose of holiday spirit considering the market's recent trepidations.

From an economic perspective, there are plenty of reasons to remain upbeat. The economy continues to impress on several fronts, with strong job growth and robust numbers from our manufacturing and service industries. In addition, both businesses and consumers express confidence in the economy, which should bode well for the upcoming holiday season.

The most recent reading on the health of our economy showed that it grew by 3.5% in the third quarter and it is likely to register 3.0% growth for the year, driven by consumer spending and inventory purchases by businesses. This rosy economic outlook, however, also comes with its own set of thorns. As the economy has strengthened and less accommodation by the Fed is needed to support its progress, the biggest consequence has been a rise in interest rates. As a result, the housing market has struggled. Home purchases and refinancings have declined as rising mortgage rates dampen activity. Home prices, so far, remain on the rise, although gains have moderated with some regions softening more than others.

Given the emphasis on interest rates and their effect on the economy, it is not surprising that the Fed has been on investors' radar this year. The Fed's mandate is to ensure price stability, encourage economic progress, and maximize employment growth. With the jobs market booming and inflation at moderate levels, the Fed's objectives are largely being met. Thus, the Fed continues on track to "normalize" monetary policy. In their quest, they have raised rates eight times with another hike expected at the December meeting.

The ideal level, where the Fed is neither stimulating the economy nor slowing it down, or what the Fed deems "the neutral rate," is uncertain at present. Market participants appear at odds with the Fed. Investors' projections for the level of interest rates next year are lower than the Fed's current estimates. Consequently, the direction of interest rates is a bit obscure and the possibility that the Fed overshoots and slows down the economy's progress bears watching.

At the time of this writing, earnings for the third quarter are wrapping up. Coming off two quarters of consecutive 20%+ growth, the bar was high for corporate profits. Many companies managed to beat expectations with earnings growth of 25%+ for the quarter, the highest since 2010. Revenues grew 9%, with strength in the financial sector. Looking ahead, analysts expect fourth-quarter earnings to increase about 14%, ending the year overall with 20%+ growth in corporate profits. That is impressive.

However, investors often tend to look forward months in advance. The earnings outlook for 2019 is more muted. Current projections suggest earnings growth will slow to high single digits – not bad, but much lower than companies produced this year.

Tariff concerns remain prevalent. A meeting between China and the U.S. at the G-20 summit in late November may offer investors more insight. Hopes are for negotiations to take place; but it's likely that a credible trade deal may need more time. Unfortunately, the more time it takes, the longer tariffs have to dampen global sentiment and investment. On the bright side, if trade deals emerge, a cloud would be lifted with likely positive ramifications for global markets worldwide.

Although risks are present, the economy is strong with no recession in sight. Consumer spending, which makes up the lion's share of our economy, has been buoyed by increases in wages and a robust labor market. Hopes for an infrastructure bill, a bipartisan issue, may also provide a boost to the economy if it comes to pass. Moreover, while corporate profits may not shine as bright next year, analysts forecast respectable growth from companies' top and bottom lines.

The recent market sell off has a silver lining as well. The market has worked off some excesses, with sentiment levels suggesting it is oversold in the near term. In addition, the removal of election uncertainty could clear the path for a year-end bounce. Though volatility levels remain elevated, investors appear calm and markets have been functioning well. A cautiously optimistic approach may be prudent and, for long-term investors, periods of weakness in the stock market can offer valuable opportunities. Attractive investments usually present themselves during these times. If there is any way we can assist, please do not hesitate to reach out to us.

Year-to-date through 11/13/18: DJIA 25,286.49 +2.3% — S&P 500 2,722.18 +1.8% — NASDAQ 7,319.12 +4.3%

STOCKS FOR DIFFERENT OBJECTIVES

INCOME STOCKS

	11/13/18 Closing Price	Yield	Est EPS Next Year
Procter & Gamble (PG) *Worldwide mfr of consumer goods*	93.47	3.07	4.71%
AT&T (T) *Worldwide telecom holding company*	30.33	6.59	3.61%
Alerian MLP Fund (AMLP) *Energy MLP ETF*	9.59	8.46	1.96%
International Paper (IP) *Global paper and packaging mfr.*	45.90	4.14	5.73%
Kimberly Clark (KMB) *Global health and hygiene products*	109.97	3.64	6.77%

GROWTH STOCKS

	11/13/18 Closing Price	Est P/E	Est EPS Next Year
The Walt Disney Co. (DIS) *Media networks and resort destinations*	116.85	15.7	7.44
JPMorgan Chase & Co. (JPM) *Global financial services firm*	109.59	10.9	10.07
Skyworks Solutions (SWKS) *Mfr of radio frequency chips for wireless mkts*	72.08	9.3	7.78
Apple, Inc. (AAPL) *Multinational technology company*	192.23	13.0	14.74
Comcast (CMCSA) *Global telecommunications conglomerate*	37.72	13.7	2.75

GROWTH AND INCOME STOCKS

	11/13/18 Closing Price	Yield	Est EPS Next Year
Pfizer (PFE) *Global biopharmaceutical company*	43.52	3.13	3.07%
LyondellBasell Industries (LYB) *3rd largest chemical company*	92.07	4.34	11.55%
Prudential Financial (PRU) *Large life insurance co*	94.62	3.80	13.04%
Johnson and Johnson (JNJ) *Manufacturer healthcare products*	144.68	2.49	8.66%
Walmart (WMT) *Retail giant*	102.94	2.02	4.66%

AGGRESSIVE GROWTH STOCKS

	11/13/18 Closing Price	Est P/E	Est EPS Next Year
Biogen (BIIB) *Leading biopharmaceutical company*	319.08	11.4	28.07
PayPal (PYPL) *Worldwide on-line payment system*	83.78	37.2	2.25
Gilead Sciences (GILD) *Biotech company*	70.92	9.8	7.23
Alphabet Inc. (GOOGL) *Internet search engine, cloud computing, delivery svs*	1,047.97	22.1	47.33
Check Point Software (CHKP) *Internet security solution provider*	110.93	20.2	5.48

Update

PayPal (PYPL): Paypal is a worldwide leader in digital and mobile payments. The company offers several payment solutions including *Paypal*, *Venmo*, *Xoom*, *Paydient*, and *Braintree*. In its most recent earnings release, the company reported strong results with an increase in customer usage and total payment volumes. Looking ahead the company expects solid growth to continue. Management has also been active inking partnerships with key companies including American Express and Walmart.