Gage-Wiley & Co., Inc.

# Money Talks

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## Market Comment

Although the year started with heightened volatility, signs of hope are emerging. Uncertainty over the future of monetary policy troubled financial markets. Therefore, when Fed Chairman Jerome Powell spoke at a conference in early January, investors were pleased that he acknowledged market participants' misgivings and the stock market weakness. He reassured investors that the Fed would be patient with further rate increases and would adjust all policy initiatives if needed.

The Fed, with its ability to lower and raise interest rates, can jumpstart or slow our economy since rates play a key role in banking, lending, and pricing of financial assets. By lowering rates, the Fed can press the accelerator on the economic gas pedal and vice-versa. After several years of giving the economy plenty of acceleration, the Fed began to take its foot off the accelerator with eight rate hikes in the last three years. The concern is that if they continue on a pre-set course, they will hit the brakes when the economy may be hitting a rough patch. Thus, a pause might be best, given the recent volatility and slowdown in the global economy. Powell's comments made clear that the Fed understood these issues and would likely hold off on rate increases for now.

In addition, good news from both the U.S. and China on trade talks lifted investors' spirits. Recent reports that progress is being made on trade negotiations by representatives on both sides and continued talks set for the end of January were well received, especially by global markets. While it's too soon to declare a victory, trade negotiations appear to be moving forward and officials are making headway. The current state of affairs is more conciliatory and may be a precursor of things to come. While there may be a light at the end of the tunnel, it behooves investors to be cognizant that it is difficult to resolve trade disputes. Therefore, it remains prudent to be cautiously optimistic that trade negotiations will be successful. It may, however, take some time.

The outlook for the U.S. economy remains positive, although a bit less rosy compared to last year. The latest reports suggest the manufacturing and service sectors are expanding, but at slower speeds. The loss of momentum is not surprising. With interest rates at higher levels, the housing market has seen home sales and refinancings fall and credit conditions have tightened a bit. Nevertheless, the jobs market remains robust and paychecks are finally seeing some decent gains. This should bode well for consumer spending, which contributes the lion's share of growth to the economy. At the time of this writing, the partial government shutdown remains in effect and may shave a bit off first quarter's GDP growth, but if an agreement is reached and the government re-opens, the economy should recover quickly.

At the moment, earnings reporting season is getting underway. Analysts expect 2018 fourth quarter profits for the S&P 500 to increase by 10.6%. Revenue growth estimates remain decent at 5.9%. Expectations have been revised downward recently as companies cut earnings guidance with some citing pressure from trade disputes. While rhetoric over trade has been around for some time, some companies are just beginning to feel the pinch. How this affects stock prices may not be clear-cut. Since stocks have fallen, many may already reflect lowered expectations. Thus, when they report, investors may breathe a sigh of relief if things are better than expected or companies may catch a bounce once investors have a clearer picture of their outlook. Inevitably, there will be hits and misses. Whatever the outcome, earning expectations are lower for this year. As of now, analysts have penciled in an increase of 6.9% for profits on 5.5% sales growth with most of the lift coming in the fourth quarter of 2019.

In the near term, investors may remain skittish until there is more clarity on two important matters. First, the trade tariff truce between the U.S. and China will expire on March 1st if negotiations are unfruitful. Second, Britain will no longer be a part of the European Union on March 29th if a deal is not reached between both nations. Market prognosticators have analyzed plenty of scenarios and outcomes both good and bad. However, nobody really knows how things will shake out. As deadlines approach, there will likely be last minute negotiations or extensions to avert an adverse outcome.

Yes, many concerns remain, but that's the world the financial markets have always lived in. There is always something to worry about. We encourage investors to stay focused on the trends in interest rates and inflation, corporate earnings, valuation, and investor sentiment as these are the primary drivers of the financial markets. Currently, interest rates remain at moderate levels, inflation is well-contained, corporate profits are still experiencing growth, and valuation levels are more attractive. Following the bout of selling pressure at the end of last year, the investment landscape appears much better than it has in a long time. During times of market weakness, emotions can run high and the prevailing issues at hand can cloud judgements. Periods such as these can set the stage for a more conducive environment for investments. With lower prices, opportunities can present themselves for those with long-term horizons.

Year-to-date through 1/15/19: DJIA 24,065.59 +3.16% — S&P 500 2,610.30 +4.13% — NASDAQ 7,023.83 +5.86%

# *STOCKS FOR DIFFERENT OBJECTIVES*

## INCOME STOCKS

| | 1/15/19 Closing Price | Yield | Est EPS Next Year |
|---|---|---|---|
| **Procter & Gamble** (PG)<br>*Worldwide mfr of consumer goods* | 92.01 | 3.12 | 4.73 |
| **AT&T** (T)<br>*Worldwide telecom holding company* | 30.60 | 6.67 | 3.61 |
| **Alerian MLP Fund** (AMLP)<br>*Energy MLP ETF* | 9.71 | 8.35 | 1.98 |
| **International Paper** (IP)<br>*Global paper and packaging mfr.* | 44.71 | 4.47 | 5.52 |
| **Kimberly Clark** (KMB)<br>*Global health and hygiene products* | 116.70 | 3.43 | 6.77 |

## GROWTH STOCKS

| | 1/15/19 Closing Price | Est P/E | Est EPS Next Year |
|---|---|---|---|
| **The Walt Disney Co.** (DIS)<br>*Media networks and resort destinations* | 111.76 | 15.6 | 7.17 |
| **JPMorgan Chase & Co.** (JPM)<br>*Global financial services firm* | 101.68 | 9.5 | 10.74 |
| **CVS Health Corp.** (CVS)<br>*Integrated pharmacy health care services* | 63.74 | 8.5 | 7.52 |
| **Apple, Inc.** (AAPL)<br>*Multinational technology company* | 153.07 | 11.2 | 13.62 |
| **Comcast** (CMCSA)<br>*Global telecommunications conglomerate* | 35.83 | 13.0 | 2.75 |

## GROWTH AND INCOME STOCKS

| | 1/15/19 Closing Price | Yield | Est EPS Next Year |
|---|---|---|---|
| **Pfizer** (PFE)<br>*Global biopharmaceutical company* | 42.73 | 3.18 | 3.06 |
| **LyondellBasell Industries** (LYB)<br>*3rd largest chemical company* | 84.58 | 4.73 | 11.01 |
| **Prudential Financial** (PRU)<br>*Large life insurance co* | 88.98 | 4.05 | 12.86 |
| **Johnson and Johnson** (JNJ)<br>*Manufacturer healthcare products* | 129.36 | 2.78 | 8.62 |
| **Walmart** (WMT)<br>*Retail giant* | 96.25 | 2.16 | 4.71 |

## AGGRESSIVE GROWTH STOCKS

| | 1/15/19 Closing Price | Est P/E | Est EPS Next Year |
|---|---|---|---|
| **Biogen** (BIIB)<br>*Leading biopharmaceutical company* | 337.54 | 12.1 | 27.97 |
| **PayPal** (PYPL)<br>*Worldwide on-line payment system* | 91.60 | 41.3 | 2.22 |
| **SS & C Technologies** (SSNC)<br>*Software services to financial service providers* | 47.19 | 13.7 | 3.44 |
| **Alphabet Inc.** (GOOGL)<br>*Internet search engine, cloud computing, delivery svs* | 1,086.51 | 22.9 | 47.37 |
| **Check Point Software** (CHKP)<br>*Internet security solution provider* | 105.90 | 19.3 | 5.48 |

## New Additions

**CVS Health Corp. (CVS)**: CVS recently completed its acquisition of Aetna, a leading health insurer. As a result, CVS has transformed itself into a leading healthcare service provider. Best known for its retail pharmacies, CVS also functions as a pharmacy benefit manager. By acquiring Aetna, it can manage patient healthcare from several vantage points increasing efficiencies and lowering costs.

**SS&C Technologies (SSNC)**: SS& C Technologies provides investment and financial software to the financial services industry. Because of SSNC's scale and product breadth, many leading financial firms use their software solutions. The company recently acquired two companies with strong software businesses that complement its products and SSNC has done well integrating the companies it acquires. These companies not only expand SSNC offerings, they also generate good cash flow.