Gage-Wiley & Co., Inc.

Money Talks

120 King Street, Northampton, MA 01060
413/584-9121 800/332-9558 Fax:413/585-5748

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7 Middle Street, Plymouth, MA 02360
508/746-7526 800/242-0263 Fax:508/746-1191

Market Comment

The New Year often welcomes resolutions and for some it also marks a fresh start. It can be a time to let go of the past and look forward to the future. Investors are certainly hoping that 2019 is a turning point since 2018 has been a pretty challenging year.

Investors are likely wondering – *how did a year that started so strong end up being so volatile?* The market entered the year with strong gains and historically low levels of volatility. As such, valuations were elevated and sentiment indicators signaled that investors were complacent. Uncertainty over trade, geopolitical concerns in Europe, slowing growth in key regions like China, and the Fed's rate hikes took a toll on financial markets. With little support from sentiment and valuation, the market struggled as the year progressed.

The proverb, "too much sun makes a desert," comes to mind in times like these. While it is difficult to weather market weakness, it is healthy when investors contemplate the economic landscape and react prudently by weighing potential outcomes. At times, the market can experience a correction as investors consider the risk/reward balance and re-align portfolios in the process. When the market goes straight up, it can be a sign that investors are chasing returns and not considering key fundamental principles such as valuation and downside risks. So while it might feel like the clouds of uncertainty battered the markets with torrential rain, especially in the final leg of the year, it can lead to brighter days ahead especially for investors with longer term horizons.

The good news is that attractive investment opportunities are beginning to surface – and financial folks are taking notice. Some of the most beaten down areas such as emerging markets saw money flow into their region in November. While it is a bit early to signal the "all clear" sign, it is encouraging to see some investors begin to put money to work in areas that are now trading at attractive valuation levels.

The Fed has also changed their tone as of late. At the time of this writing, the December Fed meeting is around the corner with market participants expecting another rate hike. Recent Fed members have stated that the Fed's path to normalization may need to be altered considering global growth concerns and trade uncertainty. As a result, market forecasts for rate hikes in 2019 have shifted lower.

Furthermore, it is possible that the Fed is mindful of the so called "yield curve inversion" recently touted on financial news media outlets. This occurs when the yield on longer term bonds goes below shorter term bonds. In this case, the yield on the 5-year Treasury note dipped below the 2-year Treasury note. However, it is important to understand that when this happens, various circumstances may be at play. Understanding the "why" is key since the signal it sends can cause consternation: investors are willing to receive less longer term because they are concerned about the economy's growth. But, that is not always the case. In this instance, the issue could have arisen due to reduced supply of 5-year Treasury notes versus 2-year notes and not from concerns over growth. In addition, the yield curve inversion that investors usually fret about is the yield of the 10-year Treasury note versus the 2-year Treasury note. At present, the difference is low, but remains positive. Whatever the cause, it is likely too early to sound the warnings that the news media have decried recently, although the situation bears watching.

Indeed, the economy has been the bright spot all year. A recent labor report showed another month of solid job growth with the unemployment rate at historically low levels. Wage gains were up modestly – offering good signs for consumer spending in the near term during the important holiday season. In addition, the U.S. services industry recorded the second highest level since 2005 while readings on manufacturing activity also notched higher than expected gains in its most recent report. On the housing front, while interest rates have hurt home sales as of late, the latest report showed a pick-up in purchases and refinancings. Given the U.S. economy's strength, it's not surprising that domestic financial markets have suffered less than their international counterparts. However, how things fare going forward might depend on global trade negotiations.

In light of this, market participants have kept a close watch on the ongoing trade dispute with China. At the time of this writing, Chinese and U.S. officials have agreed to advance talks and delay further tariffs. The truce announced at the G-20 meeting in late November remains in effect. The hope is for negotiations to take place, deals formed, and tariffs removed. Although concerns over the detainment of a high official in one of China's prominent technology firms have surfaced, so far the incident has mainly caused jitters in financial markets. U.S. administration officials have stated that it should not impede trade talks. The hope is that matters can be resolved amicably although uncertainty over trade is likely

(Continued on page 2)

Year-to-date through 12/12/18: DJIA 24,527.27 -0.8% — S&P 500 2,651.07 -0.8% — NASDAQ 7,098.31 +2.8%

STOCKS FOR DIFFERENT OBJECTIVES

INCOME STOCKS

	12/12/18 Closing Price	Yield	Est EPS Next Year
Procter & Gamble (PG) *Worldwide mfr of consumer goods*	94.03	3.05	4.71
AT&T (T) *Worldwide telecom holding company*	30.16	6.63	3.62
Alerian MLP Fund (AMLP) *Energy MLP ETF*	9.44	8.59	1.95
International Paper (IP) *Global paper and packaging mfr.*	44.26	4.52	5.70
Kimberly Clark (KMB) *Global health and hygiene products*	113.92	3.51	6.77

GROWTH STOCKS

	12/12/18 Closing Price	Est P/E	Est EPS Next Year
The Walt Disney Co. (DIS) *Media networks and resort destinations*	112.21	15.2	7.40
JPMorgan Chase & Co. (JPM) *Global financial services firm*	101.02	10.0	10.06
Skyworks Solutions (SWKS) *Mfr of radio frequency chips for wireless mkts*	69.31	9.2	7.56
Apple, Inc. (AAPL) *Multinational technology company*	169.10	11.5	14.74
Comcast (CMCSA) *Global telecommunications conglomerate*	36.98	13.4	2.77

GROWTH AND INCOME STOCKS

	12/12/18 Closing Price	Yield	Est EPS Next Year
Pfizer (PFE) *Global biopharmaceutical company*	44.16	3.08	3.07
LyondellBasell Industries (LYB) *3rd largest chemical company*	85.44	4.68	11.34
Prudential Financial (PRU) *Large life insurance co*	82.85	4.35	12.91
Johnson and Johnson (JNJ) *Manufacturer healthcare products*	147.10	2.45	8.65
Walmart (WMT) *Retail giant*	93.11	2.23	4.71

AGGRESSIVE GROWTH STOCKS

	12/12/18 Closing Price	Est P/E	Est EPS Next Year
Biogen (BIIB) *Leading biopharmaceutical company*	322.61	11.5	27.97
PayPal (PYPL) *Worldwide on-line payment system*	86.50	38.4	2.25
Gilead Sciences (GILD) *Biotech company*	68.14	9.4	7.23
Alphabet Inc. (GOOGL) *Internet search engine, cloud computing, delivery svs*	1,073.73	22.7	47.33
Check Point Software (CHKP) *Internet security solution provider*	108.74	19.8	5.48

(Continued from page 1)

until a credible deal is formed.

While the vicissitudes investors have experienced recently have been prominent (especially compared to 2017's tranquil market!), the market appears to be forming a trading range and is currently finding support at the bottom of that range. Moreover, volatility levels remain modest and the underpinnings in the financial markets have been functioning well. The credit markets show little signs of stress and conditions are favorable for business and consumer borrowing. Thus, while risks remain, the markets have been resilient. For long-term investors, environments like these can present attractive opportunities. Therefore, a cautiously optimistic approach remains prudent with the perspective that the equity market has likely discounted some risks. If things turn out better than expected on the geopolitical front, especially with global trade, market participants might breathe a sigh of relief and there may be a good year in store for investors.