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Money Talks

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Market Comment

At the moment, the stock market appears to be finding its groove again. Volatility has receded, equity prices have risen, and bond yields have stabilized. Judging by the turn in sentiment, one would think that all the concerns that plagued investors at the end of last year have been resolved. If only!

For now, politics continue to create uncertainty for investors on both the domestic and global front. In the U.S., a short-term spending bill re-opened the government, but another confrontation is nearing in mid-February if legislators cannot agree on a long-term solution. Overseas, a Brexit deal remains elusive despite the deadline at the end of March. Finally, while officials have signaled progress regarding trade disputes between China and the U.S., negotiations remain in the early stages and neither side has signaled that a deal is imminent. Yet, the market is up, with the S&P 500 posting strong returns in January. *What is behind the renewed bout of optimism?*

During periods of elevated volatility, investors tend to sell first and ask questions later. December's sell off is a good example of how things can head south when market sentiment changes quickly. In addition, tax loss selling (selling positions with losses to offset gains) likely exacerbated the market's fall.

The tumultuous period offers insights into investors' emotions. Reactions can vary but they generally shift from worry to complacency, with several phases in between. At the end of the year, the pendulum may have swung too far towards the fear spectrum, setting the stage for an attractive investment landscape. Astute investors likely took advantage of opportunities to put some money to work on some beaten-down companies. Legendary investor Warren Buffet offers similar advice. He believes it is wise for investors to be "*fearful when others are greedy and greedy when others are fearful.*"

In addition, the Fed responded to the market's trepidations. Not too long ago, the Fed was able to increase rates with minimal impact on the financial markets. The Fed's ability to function on autopilot with gradual rate hikes over the last couple of years was largely a function of the low level of interest rates, moderate inflation, and strength in the global economy. Now, however, things are different.

The Fed recognizes the need to change how it navigates the future of monetary policy in the midst of uncertainties both abroad and at home. The Fed's recent statement acknowledged that they are cognizant of the shifting landscape and will be patient with further rate increases and adjust all policies if needed. Market participants welcomed the announcement and sent stocks higher. The good news is that the Fed is no longer on a preset course. On the other hand, their cautionary stance is due to risks to the economic outlook. They are on pause mode for now, and if the economy hits a rough patch, a rate cut might be their next move. The reality is that the future of monetary policy remains fluid and the path forward may be less clear compared to the past.

Globally, other central banks appear to be giving similar messages. Monetary officials in England, Europe, China, India, and Australia either have initiated accommodative policies or put the brakes on reducing stimulus. Recently, several economic indicators suggest that the global economic slowdown is increasing in both breadth and scope. A notable factor in the softening of the global economy is China's recent economic travails. Global trade disputes have taken a bite out of its largely export-driven economy. The adverse effects have been felt across several countries that sell their resources or products to China.

Fortunately, the U.S. is largely insulated from China's economic woes, although some domestic industries that rely on demand from China have struggled. Overall, however, the U.S. economy continues to advance. The latest reading on gross domestic production (GDP) suggests it grew in the 3.0% range last year and projections call for about 2.5% growth this year. The lower outlook reflects the waning boost from tax cuts initiated last year. Growth in the first quarter is likely to be pinched by the government shutdown, but expectations are for a rebound in the second quarter. Indeed, key reports for jobs, manufacturing, and service industries indicate that the economy remains on solid footing. Inflation remains benign and with the Fed on hold, the housing market may see a rebound in sales and refinancings in time for the important spring season.

At the time of this writing, a little over half of the companies in the S&P 500 have reported earnings for the fourth quarter of last year. So far, they reported an increase of 13.3% in profits on 7.0% sales growth. If this rate holds, this will be the fifth consecutive quarter of double-digit earnings growth for the index. Looking ahead, the picture for 2019 is mixed. First quarter projections currently estimate a slight drop in earnings followed by small increases in the second and third quarter of this year. The majority of the earn-

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Year-to-date through 2/11/19: DJIA 25,053.11 +7.4% — S&P 500 2,709.80 +8.1% — NASDAQ 7,307.90 +10.1%

STOCKS FOR DIFFERENT OBJECTIVES

INCOME STOCKS

	2/11/19 Closing Price	Yield	Est EPS Next Year
Procter & Gamble (PG) *Worldwide mfr of consumer goods*	98.27	2.92	4.77
AT&T (T) *Worldwide telecom holding company*	29.71	6.87	3.69
Alerian MLP Fund (AMLP) *Energy MLP ETF*	9.65	6.26	2.00
International Paper (IP) *Global paper and packaging mfr.*	45.62	4.38	5.42
Kimberly Clark (KMB) *Global health and hygiene products*	116.79	3.43	6.94

GROWTH STOCKS

	2/11/19 Closing Price	Est P/E	Est EPS Next Year
The Walt Disney Co. (DIS) *Media networks and resort destinations*	109.44	15.2	7.21
JPMorgan Chase & Co. (JPM) *Global financial services firm*	100.88	9.3	10.72
CVS Health Corp. (CVS) *Integrated pharmacy health care services*	65.10	8.8	7.41
Apple, Inc. (AAPL) *Multinational technology company*	169.43	13.1	12.96
Comcast (CMCSA) *Global telecommunications conglomerate*	37.00	12.1	3.06

GROWTH AND INCOME STOCKS

	2/11/19 Closing Price	Yield	Est EPS Next Year
Pfizer (PFE) *Global biopharmaceutical company*	41.68	3.45	2.99
LyondellBasell Industries (LYB) *3rd largest chemical company*	83.91	4.77	11.37
Prudential Financial (PRU) *Large life insurance co*	91.50	3.93	13.79
Johnson and Johnson (JNJ) *Manufacturer healthcare products*	132.00	2.73	9.20
Walmart (WMT) *Retail giant*	96.20	2.16	4.72

AGGRESSIVE GROWTH STOCKS

	2/11/19 Closing Price	Est P/E	Est EPS Next Year
Biogen (BIIB) *Leading biopharmaceutical company*	316.87	10.9	29.10
PayPal (PYPL) *Worldwide on-line payment system*	92.69	33.8	2.74
SS & C Technologies (SSNC) *Software services to financial service providers*	53.74	16.1	3.33
Alphabet Inc. (GOOGL) *Internet search engine, cloud computing, delivery svs*	1,102.12	19.8	55.71
Check Point Software (CHKP) *Internet security solution provider*	116.65	19.9	5.87

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ings in 2019 are slated to come in the last quarter with an overall increase of 5.0% year over year. The outlook is less rosy than last year's impressive showing. On the other hand, analysts have been cutting estimates so the hope is that expectations are low and companies will be able to beat lowered expectations.

Everyone needs a little support now and then. Financial markets are no different. With the uncertainties that lay ahead, monetary officials worldwide have taken notice of the challenges and have been willing to extend a hand to investors. Nevertheless, they can only do so much. Until the aforementioned issues come to a resolution, the stock market may experience heightened levels of volatility. Still, the prudent stance may be to stay the course. A solid economic backdrop coupled with strong consumer confidence should provide comfort to the investment community in the near term.