

Money Talks

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Market Comment

After a period of calm in the financial markets, investors may be in store for a bumpier ride as the trade war with China escalates. At the time of this writing, negotiations have stalled, tariffs have increased, and other measures to pressure each side are on the table. The ramifications, if the tension does not subside, will likely be harmful to both countries, and the global economy as a whole. While figures on the impact may take time to determine, equity markets worldwide wasted no time trying to price in the financial toll. As such, after a strong start to the year, volatility levels have risen and stocks have given back some gains.

Unfortunately, it remains uncertain when we'll have a resolution. In the meantime, it is probable that market participants will be preoccupied with the back-and-forth rhetoric between U.S. and Chinese officials until a compromise forms. *The challenge is to wait.* There is a lot at stake for both nations and the costs of letting the window of opportunity to reach a deal close may be too high for either side to pass up. Therefore, patience is key.

On the economic front, the U.S. labor market remains on firm footing. The most recent jobs report showed that the unemployment rate sank to the lowest level in 50 years! Since our economy relies on the good fortune of consumers, it is reassuring to see that the majority are finding work and many are finally seeing decent wage gains. Consumers' spirits may be reflective of this; the latest surveys show that their

confidence in the economy improved and is near the high levels reached last fall.

Other indicators, however, show that growth is slowing a bit. Manufacturing reports for April came in lower than expected, mostly due to trade concerns and currency issues. In addition, construction spending was soft while mortgage applications were also lower than expected. In general, growth continues, albeit at a slower pace.

For the moment, it is likely that the Fed will keep interest rate increases on hold. Inflation remains muted and, given the current travails of the trade dispute, it may be prudent for monetary officials to see how things shake out. The good news is that central bank officials worldwide have taken notice of the slowdown in the global economy. Most are responding by increasing stimulus or holding off on removing accommodation. Thus far, this has been enough to appease investors. However, if the global trade dispute continues to escalate, more action may be needed to soothe financial markets.

On a more positive note, corporate earnings for the first quarter are wrapping up. The scorecard suggests companies deserve high marks for turning in better-than-expected numbers. Earnings growth was essentially flat and, while this might not seem like something to celebrate, the figure is much better than the low single-digit decline analysts were expecting coming into earnings season. At the time of this writing, 76% of the companies that have reported beat earnings expectations and nearly 60% beat sales growth estimates.

Looking forward, though, companies have their work cut out for them. Dig-

ging into the earnings numbers reveals that companies with a majority of their earnings from international operations were hardest hit in the first quarter. They suffered from the aforementioned trade-related issues and currency headwinds. Analyst estimates are currently pricing in a rebound in the latter half of the year, possibly hoping that trade issues would abate. However, the trade dispute is heating up and estimates may be too high if things do not cool down in the near term. Since corporate profits are central to the stock market's health, it behooves investors to pay close attention to the trend of revisions and, thus, the earnings outlook for the remainder of the year.

There are always things to fret about in the financial markets. It would be nice if things went smoothly all of the time, but that is not reality. The current trade impasse may test the market's fortitude, but it is likely to find support from a solid economy and accommodative central bank. In addition, corporate profits may continue to surprise investors and deliver modest growth.

Until there is more clarity on the horizon, expect heightened levels of volatility in the near term. On the bright side, market dislocations can often lead to valuable investment opportunities. Astute investors may benefit from taking advantage of lower prices, especially when stocks are sold indiscriminately. Still, it is easier said than done. In light of this, if there is any assistance we can provide, please do not hesitate to call.

STOCKS FOR DIFFERENT OBJECTIVES

INCOME STOCKS

	5/14/19 Closing Price	Yield	Est EPS Next Year
Procter & Gamble (PG) <i>Worldwide mfr of consumer goods</i>	105.60	2.83	4.74
AT&T (T) <i>Worldwide telecom holding company</i>	31.09	6.56	3.65
Alerian MLP Fund (AMLFP) <i>Energy MLP ETF</i>	9.86	7.99	n/a
International Paper (IP) <i>Global paper and packaging mfr.</i>	44.74	4.47	5.14
Kimberly Clark (KMB) <i>Global health and hygiene products</i>	127.55	3.23	7.02

GROWTH STOCKS

	5/14/19 Closing Price	Est P/E	Est EPS Next Year
The Walt Disney Co. (DIS) <i>Media networks and resort destinations</i>	133.20	19.8	6.72
JPMorgan Chase & Co. (JPM) <i>Global financial services firm</i>	110.32	10.3	10.69
ABB Ltd. (ABB) <i>Industrial equipment and systems</i>	18.69	16.4	1.14
Apple, Inc. (AAPL) <i>Multinational technology company</i>	188.66	14.8	12.72
Comcast (CMCSA) <i>Global telecommunications conglomerate</i>	42.91	13.2	3.24

GROWTH AND INCOME STOCKS

Pfizer (PFE) <i>Global biopharmaceutical company</i>	40.66	3.54	2.98
LyondellBasell Industries (LYB) <i>3rd largest chemical company</i>	80.52	4.97	11.64
Prudential Financial (PRU) <i>Large life insurance co</i>	98.58	4.06	13.84
Johnson and Johnson (JNJ) <i>Manufacturer healthcare products</i>	136.82	2.63	9.16
Walmart (WMT) <i>Retail giant</i>	100.29	2.11	5.00

AGGRESSIVE GROWTH STOCKS

Salesforce.com (CRM) <i>Enterprise software for client relationship mgmt</i>	158.07	90.3	1.75
PayPal (PYPL) <i>Worldwide on-line payment system</i>	109.09	40.1	2.72
SS & C Technologies (SSNC) <i>Software services to financial service providers</i>	58.15	14.5	4.02
Alphabet Inc. (GOOGL) <i>Internet search engine, cloud computing, delivery svcs</i>	1,124.86	20.7	54.39
Check Point Software (CHKP) <i>Internet security solution provider</i>	116.33	19.9	5.86

Update

The Walt Disney Company (DIS): Disney recently announced the timeline and price of its Disney+ streaming service. Investors welcomed the low price point as it will be able to compete with others who dominate the streaming space. The company is also benefiting from a very well received release of its Marvel Avenger series, *Endgame*. The series has amassed a strong following and the final leg may end up becoming one of the top movies in ticket sales in film history.

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