FEBRUARY 2019

January was a month where markets came back to reality. After a 2018 marked by volatility and equity returns at odds with fundamentals, markets broadly rebounded in January recovering the majority of 2018's losses experienced in the Fourth Quarter. Domestic equities rallied 7.9%, as measured by the Standard and Poor's 500 Index.

MARKETS GET A REALITY CHECK IN JANUARY

In 2018, unemployment reached a 50-year low, wage growth continued to rise, and corporate profits surged. During the year, markets reached all-time highs before concerns over Fed policy, the yield curve, a trade war with China, and a government shutdown, which brought heightened volatility and a sharp market pullback in the Fourth Quarter.

January brought welcome relief to investors, as a strong labor market, low inflation, and a more patient Fed reminded markets that **underlying fundamentals remain strong.** During January, the Standard and Poor's 500 Index experienced a 7.9% rally, its best January return in over 30 years. Small caps as measured by the Russell 2000 Index, posted a double digit 11.2% return. International markets moved higher, as well, with the Global Dow Index returning 7.6%.

While we are about 10% off all-time highs, we do believe that a return to market highs is possible at some point during the year. Positive news from the Fed, progress on China-US trade talks, and the realization that the chances of recession in 2019 are low could be the catalyst. However we do see volatility potentially being more prevalent in 2019. History shows that the market generally follows January's direction through the remainder of the year. Since 1950, a gain in January has preceded an annual gain 87% of the time.

As we enter February, we are optimistic that Fed Chairman Jerome Powell's recent hinting that the Fed will take a more wait-and-see approach on rates will serve as a tail-wind to quell volatility in February. However, we are closely eyeing border security negotiations and China trade talks as potential sources of turbulence for the markets. This month marks a deadline on both fronts. Without a deal on border security before February 15th, the government will likely shutdown again and, without progress on China trade talks, the US-China tariff truce will expire at the end of the month.

FOCUSED ON YOUR FINANCIAL INDEPENDENCE

Last Month's key economic data

Employment

Total employment rose by 312,000 in December after adding 176,000 (revised) new jobs in November. The unemployment rate advanced to 3.9%. The number of unemployed persons rose slightly to 6.3 million. The labor participation rate was up slightly at 63.1%. Average hourly earnings also increased by $0.11 to $27.48.

FOMC/Interest rates

The Federal Open Market Committee did not raise rates in January and signaled a more wait and see approach. The next meeting is scheduled for March 19 and 20.

GDP

The advanced estimate of fourth quarter GDP numbers has been delayed.

Inflation and consumer spending

Inflationary pressures are low and consumer spending remains strong.

The *Consumer Price Index* fell 0.1% in December. Over the last 12 months ended in December, consumer prices are up 1.9%. Core prices, which exclude food and energy, climbed 0.2% for the month and are up 2.2% over the 12 months ended in December.

According to the *Producer Price Index*, the prices companies receive for goods and services fell 0.2% in December. Producer prices have increased 2.5% over the 12 months ended in December. Prices less food and energy gained 0.3% in December and are up 2.8% over the last 12 months.

Housing

Existing home sales fell 6.4% in December and are down 10.3% from last December. The median price for existing homes in December was $253,600, slightly down from November but up 2.9% from the year prior.

Manufacturing

Industrial production advanced 0.3% in December, its largest gain since February.

Imports and exports

The advanced report for international trade numbers has been delayed.

International markets

Global stocks responded well to news that the Fed was taking a wait and see approach on rate hikes. President Trump has signaled that we should see a trade deal with China finalized by March 1st. In Europe, growth was slower during the quarter and early reports indicate that Italy has fallen into a recession. There are also concerns about China's manufacturing sector slipping for a second month in a row.

Consumer confidence

Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, declined slightly in December and January. The index now stands at 120.2.

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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations.