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The same headlines that negatively influenced the markets in December found relief during the first month of the year. Fears of a global economic slowdown, mainly from China, were eased with a promise of a massive stimulus by the government. Trade issues between China and the U.S. seemed to abate as the Asian country made concessions and talks resumed. The Federal Reserve calmed the markets with the themes of data dependence and “patience.” Finally, the American political gridlock in the form of the longest government shutdown in history has temporarily reached a ceasefire. In the latter stages of an investment cycle, market volatility is often driven by uncertainties external to economic fundamentals, such as those we saw in the last few months.

Underneath the shifting sentiments, the engine of the U.S. economy continued to forge ahead. The January jobs report delivered good news on the consumer front¹, and initial unemployment claims also fell to the lowest on record in January². On the business side, companies reported stronger new business growth, increased new orders, and only spotty mentions of the government shutdown³. The fundamentals remained sound through the ups and downs of the market, and we expect the growth scenario to continue into the upcoming months.

Domestic Equity

U.S. EQUITY MARKETS				
Index	1 Month	Year-to-Date	1 Year	3 Year
DJIA	7.3	7.3	-2.2	17.8
S&P 500	8.0	8.0	-2.3	14.0
Russell 2000	11.2	11.2	-3.5	14.7
Russell 1000 Growth	9.0	9.0	0.2	16.6
Russell 1000 Value	7.8	7.8	-4.8	11.6
FTSE NAREIT U.S.	11.4	11.4	10.1	9.6
Bloomberg Commodity	5.4	5.4	-8.2	2.7

The U.S. equity market began its recovery against the backdrop of improved sentiment and reassurance of stable fundamentals. On the sector level, top performers included the Industrials sector, demonstrating a speedy recovery from the perceived progress in matters related to China, and the Energy sector gained as oil prices sharply reversed course⁴. The Q4 earnings seasons so far has painted a healthy picture, but companies are beating the estimates by a smaller margin than the five-year average⁵. In all, valuations for U.S. equity look fairly in line with long-term averages after the January recovery.

International Equity

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Year-to-Date	1 Year	3 Year
MSCI ACWI ex USA	7.6	7.6	-12.6	9.6
MSCI EAFE	6.6	6.6	-12.5	7.7
MSCI Emerging Markets	8.8	8.8	-14.2	14.9
MSCI EAFE Small Cap	8.1	8.1	-15.3	9.8

The international picture remained murky with negative stories from around the world. Dominating the headlines were Brexit and China, although there is not yet a resolution to either of these issues. Decelerating growth stories from Continental Europe included the lowest GDP growth rate⁶ since the second quarter of 2014. Notable countries, such as Germany and France are reporting stagnating growth, and Italy has fallen into a technical recession as of the end of the year⁷. Despite the unfavorable news, international equity markets traded largely in line with the U.S. markets. For the month, both the MSCI EAFE and EM indices produced positive results for U.S. investors, and international equity market valuations remain close to long-term averages.

Fixed Income

FIXED INCOME MARKETS				
Index	1 Month	Year-to-Date	1 Year	3 Year
BarCap US Aggregate	1.1	1.1	2.3	2.0
BarCap Global Aggregate	1.5	1.5	-0.9	2.9
BarCap US High Yield	4.5	4.5	1.7	9.4
JPM Emerging Market Bond +	5.1	5.1	0.0	5.5
BarCap Muni	0.8	0.8	3.3	2.2

During January, bondholders focused on the values created during the 2018's fourth quarter selloff. As the fear of rate hikes by the Federal Reserve receded and investors' concerns of an imminent recession diminished, risk assets such as high-yield bonds⁸ and emerging-market debt⁹ rebounded sharply during the month. Conventional asset classes such as investment grade corporate bonds¹⁰ and U.S. Treasury¹¹ securities performed well, which produced a solid start to the year for traditional intermediate core bond portfolios¹². After the January rebound, fixed income securities appear to be fairly valued.

January presented us with a patient Fed, China trade talks and government employees returning to work, which lifted investors' spirits. Although the fundamentals remain supportive (growing economy, stable corporate earnings and solid corporate balance sheets) investors are extremely sensitive to the slightest whiff of bad news and are quick to respond. In the latter stages of an investment cycle emotions can run amok and lead to very volatile markets. However, we believe this stage can last for an extended period and reward those with patience and fortitude.

Research Department Update

Beginning in 2016, Brian Hrabak assumed oversight of our Research effort in addition to his institutional consulting responsibilities. Since then, Brian has successfully implemented many enhancements to our Research team including: governance, recruiting talented individuals, and processes. After two years of dual responsibilities - and with the Research functioning at a high level - Brian has decided to return full-time to institutional consulting at Clearstead. Brad Turner, our firm's Chief Operating Officer, will oversee Research. Tom Seay will remain as the Director of Research. We anticipate hiring an additional Research Analyst in 2019.

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Sources:

- 1 U.S. Department of Labor, 2/1/2019, the release reported unemployment rate of 4.0% and 304,000 jobs gained
- 2 Ibid., 1/18/2019, 200,000 in initial claims
- 3 IHS Markit, 1/24/2019, U.S. Composite PMI for January 54.5; December 54.4
- 4 S&P 500 Industrials +11.4%, S&P 500 Energy +11.1%
- 5 FactSet Earnings Insight, 2/1/2019, Q4 blended earnings growth for the S&P 500 Index is 12.4%
- 6 Eurostat, 1/31/2019, +0.2% GDP growth rate for the fourth quarter of 2018
- 7 NBER definition of a recession is two consecutive quarters of contraction
- 8 Bloomberg Barclays U.S. Corporate High Yield Index +4.5%
- 9 JPM Emerging Market Bond Index +4.4%
- 10 Bloomberg Barclays U.S. Investment Grade Corporate Index +2.4%
- 11 Bloomberg Barclays U.S. Treasury Index +0.5%
- 12 Bloomberg Barclays Aggregate Index +1.1%

Disclosures

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