JANUARY 2019 INVESTMENT REVIEW, Rob Morgan CIO

January was a good month for equities and fixed income. The S&P 500 was up 7.9%, the best start to the year since 1987. The bond market, depending upon the index, also showed slight gains for the month as well.

On the equity side, there are a few primary reasons why the year got off to a good start. The jobs report for December, reported in early January, showed that the economy had grown over 300,000 jobs for the month, exceeding expectations by a wide margin. This job growth came in the face of economic slowing in Asia and Europe, with many wondering if the slowing growth would begin to creep into the US economy as well.

Another reason for favorable equity markets in January – the 4th quarter earnings season has gotten off to a better than expected start. A larger number of companies than expected are reporting revenue and earnings 'beats' than anticipated.

Finally, the Federal Reserve pronouncement at the end of January, and Chairman Powell's news conference following the release of the pronouncement, were just about as good as investors could have hoped for. The Fed Chair essentially said that the next move in rates is just as likely to be down as up, and the Fed would be patient and let the data tell them what to do next.

As noted above the bond market also showed slight gains for January, but the yield curve remains stubbornly close to inverting. As noted a month ago in my 2018 Investment Review, when the bond market does this, it is an indication that bond markets expect a slowdown in growth, which could lead to a recession.

LOOKING FORWARD

There's a saying on Wall Street – 'As January goes, so goes the year'. The Stock Trader's Almanac says that since 1950, the January direction of the stock market has predicted the direction of the year 87% of the time. That's a good sign for 2019, but the predictor didn't work last year.

What are the possible storm clouds that could adversely affect stocks for the remainder of 2019? Many analysts having been cutting their earnings estimates for the remainder of the year, and a few are predicting an 'earnings recession'. These are those who find trouble in weak growth. There are also those who find trouble in strong growth, predicting that the Federal Reserve will need to resume the rate hike campaign because of unexpectedly strong growth. Finally, we still have a trade war going with China and parts of the rest of the world.

Continuing to have a diversified portfolio which meets the return objectives and risk tolerance for our clients continues to make sense.

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