

“Do you know what’s driving market moves?”

By Tommy Williams, CFP®

Like runners who’ve completed a difficult section in a marathon, U.S. stock investors took a breather last week. The Standard & Poor’s 500 Index, which has gotten off to its best start since 1987, ended the week with a slight loss, while the Dow Jones Industrial Average and Nasdaq Composite finished slightly higher, reported Ben Levisohn of *Barron’s*. News the U.S.

government shutdown would end, even temporarily, appeared to be of little interest to investors. *Barron’s* suggested the markets’ muted response to the government reopening was similar to its response to the shutdown – there wasn’t much of one. In fact, the S&P 500 gained 10 percent while the federal government was closed.

Despite apparent disinterest, the shutdown could negatively affect sentiment, according to Sam Fleming and Brooke Fox of *Financial Times*. They reported:

“The record-breaking US government shutdown is triggering ripple effects across the US economy and risks denting

confidence among companies that have already been fretting about trade disputes and stock market turbulence. Shutdowns have historically had only fleeting economic effects, but Jay Powell, the Federal Reserve Chairman, warned last week that a dispute that outlasts past impasses could begin to change the picture for the worse.”



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However, because I know you’d want to know this government shutdown lasted 35 days. The second longest shutdown lasted 21 days ending on January 5, 1996. In the six months following that shutdown the market (S&P) gained 6.6%. Now you know.

Last week, stock investors weren’t all that

impressed by earnings, either. Although it wasn’t that bad. Earnings indicate how profitable companies were in the previous quarter. At the end of last week, 22 percent of companies in the S&P 500 had reported earnings and, overall, they were 3 percent above estimates, according to John Butters at *FactSet*.

However, indications the Federal Reserve may decide to keep more Treasuries on its balance sheet than originally anticipated gave U.S. stocks a boost late in the week, reported Nick Timiraos of *The Wall Street Journal*. The Fed began shrinking its balance sheet in 2017 by letting Treasury and mortgage bonds mature. It also helps that the Fed seems to be backing off on its’ interest rate increase plans.

On a different, yet newsworthy front, what is going on with this Brexit deal? Last November, *BBC* commentator Chris Mason reflected the frustration of a nation with his report on the rapidly approaching deadline for the British

exit from the European Union (EU) and his report went viral. He said:

"So, where are we in all of this Brexit process...people like me are paid, aren't we, to have insights and foresights and hindsight about these things, to be able to project where we're going to go. To be quite honest, looking at things right now, I haven't got the foggiest idea what is going to happen in the coming weeks. Is the prime minister going to get a deal with the EU? Dunno. Is she going to be able to get it through the Commons? Don't know about that, either."

Since then, we've gotten some answers. The Prime Minister did indeed negotiate a deal with the EU and, on January 15, the British Parliament soundly rejected it. Heather Stewart of *The Guardian* reported it was, *"...the heaviest parliamentary defeat of any British prime minister in the democratic era."*

The lack of an agreement in combination with a looming Brexit deadline – it's just 9 weeks out – has created tremendous uncertainty about the future of British trade with the EU. One response has been

stockpiling goods. Last week, Sarah Butler of *The Guardian* reported three-fourths of warehouse space in the United Kingdom is at capacity.

One creative entrepreneur has been marketing Brexit survival kits that provide 30 days of food rations for £295 (\$380). Reuters reported the kit includes, "...60 portions of freeze-dried British favorites: Chicken Tikka, Chili Con Carne, Macaroni Cheese and Chicken Fajitas, 48 portions of dried mince and chicken, firelighter liquid, and an emergency water filter." Once again necessity is the mother of invention.

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