

Market Recap for the Week Ending 03/01/2019

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HIGHLIGHTS

- Stocks were up but the Dow ended its nine-week winning streak.
- Q4 GDP comes in better than expected at 2.60% but Q1 is looking bleak.
- Interest rates increased during the week.

MARKET RECAP

US stocks were up by 0.45%, although the Dow Jones Industrial Average ended its nine-week winning streak, falling by 0.02%. International stocks managed a gain of 0.17%. Bonds fell by 0.47% as interest rates increased across the curve. For January and February, it was the best opening two months of a year since 1991. The S&P 500 was up by 12.07%.

GDP

The US economy grew by 2.6% in Q4, adjusting for seasonal activity. That was higher than the consensus estimate of 2.2%. Output was up 3.1% year over year, making it two quarters in a row of greater than 3% year over year growth. The White House thinks 3% growth will continue. The Federal Reserve estimates growth of 2.3% in 2019, 2.0% in 2020 and 1.8% in 2021. For the year of 2018, the economy grew by 2.9%.

PERIOD	BEA*
Q4 2018	2.60%
Q3 2018	3.40%
Q2 2018	4.20%
Q1 2018	2.00%
Q4 2017	2.90%
Q3 2017	3.20%
Q2 2017	3.10%
Q1 2017	1.40%
Q4 2016	2.10%
Q3 2016	3.50%
Q2 2016	1.40%
Q1 2016	0.80%

**Bureau of Economic Analysis*

The initial estimates for Q1 look weak. The Atlanta Fed's GDPNow model has Q1 growth at 0.30% and the NY Fed's Nowcast model is at 0.88%. Over recent quarters, the GDPNow model has trended lower as the quarter has progressed, so starting at 0.30% is not a good sign.

INTEREST RATES

The better than forecasted GDP numbers increased interest rates during the week. That, along with a Fed that has made it clear that it will be patient before increasing interest rates again might be increasing inflation expectations, resulting in higher rates. Rates on the 2-year increased by 7 basis points and on the 30-year by 11 basis points. The spread between the 10 and 2-year treasury bonds has increased to 21 basis points, the highest amount since December. That would be a positive, as the threat of a 10-year bond yielding less than a 2-year bond (an inverted yield curve) is considered a recessionary signal.



The increase in interest rates was enough to change the price trend to negative (as interest rates go up, bond prices go down) on the AGG (the aggregate bond index) for the 2-week and one-month period for the first time since November 16, 2018.

TREND	VTI	SPY	VXUS	AGG
1-Year	Up	Up	Down	Up
6 Months	Down	Down	Down	Up
3 Months	Up	Up	Up	Up
1 Month	Up	Up	Up	Down
2-Weeks	Up	Up	Up	Down
200-Day Moving Avg	Up	Up	Below	Above

The trend is calculated by the slope of the moving average.

Increased talk by Democratic presidential candidates about using Modern Monetary Theory as justification for vastly widening deficits might be seeping into the pricing of interest rates. As we have written and spoken about many times, neither political party has a serious interest in getting deficits under control and now there is open talk of expanding them even more.

YELLEN ON TRUMP

Former Fed Chair Janet Yellen was asked this week if she thinks that President Trump has a grasp of economic policy, she responded, *"Well, I doubt that he would even be able to say that the Fed's goals are maximum employment and price stability, which is the goals that Congress have assigned to the Fed. He's made comments about the Fed having an exchange rate objective in order to support his trade plans, or possibly targeting the U.S. balance of trade. And, you know, I think comments like that shows a lack of understanding of the impact of the Fed on the economy, and appropriate policy goals."*

SCOREBOARD

PERFORMANCE	VTI	SPY	VXUS	AGG	\$	OIL
3/1/2019	US Market	SP500	Intl (x-US)	Bonds	US\$	Crude
Week	0.45%	0.46%	0.17%	-0.47%	0.01%	-2.55%
March 2019	0.67%	0.62%	0.27%	-0.16%	0.18%	-2.48%
February 2018	3.56%	3.24%	1.63%	-0.11%	0.17%	0.07%
January 2019	8.54%	8.01%	7.67%	0.91%	-0.98%	18.78%
YTD	13.16%	12.20%	9.72%	0.64%	-0.18%	22.88%
2018	-5.21%	-4.56%	-14.43%	0.10%	4.08%	-20.62%
2017	21.21%	21.70%	27.45%	3.61%	-7.81%	12.47%
2016	12.83%	12.00%	4.81%	2.41%	2.41%	33.48%
2015	0.36%	1.25%	-4.19%	0.48%	7.19%	-29.70%
2014	12.54%	13.46%	-4.74%	6.00%		-43.92%
2013	33.45%	32.31%	14.61%	-1.98%		0.47%

All returns include dividends. CL1:Com is the WTI Crude Generic 1st Future/Bloomberg, BUXY is the WSJ Dollar Index.

RATES	3m	2-YR	10-YR	30-YR	2-10	HY OAS
3/1/2019	2.44%	2.55%	2.76%	3.13%	0.21%	3.92%
2/22/2019	2.46%	2.48%	2.65%	3.02%	0.17%	4.08%
2/28/2018	2.45%	2.52%	2.73%	3.09%	0.21%	3.92%
12/31/2018	2.45%	2.48%	2.69%	3.02%	0.21%	5.33%
12/31/2018	2.45%	2.48%	2.69%	3.02%	0.21%	5.33%
Δ for Week*	(2.00)	7.00	11.00	11.00	4.00	(16.00)
Δ for Month*	(1.00)	3.00	3.00	4.00	0.00	0.00
Δ for Quarter*	(1.00)	7.00	7.00	11.00	0.00	(141.00)
Δ YTD*	(1.00)	7.00	7.00	11.00	0.00	(141.00)

*Δ is measured in basis points; 2-10 refers to the spread between the 10 & 2-yr bonds.

HY OAS - Merrill Lynch US High Yield Option-Adjusted Spread.

Year	Earnings	SPX	P/E
2020 Estimate	188.08	2,803.69	14.91
2019 Estimate	168.12	2,803.69	16.68
2018 Estimate	161.71	2,803.69	17.34
2017	132.00	2,604.47	19.73
2016	118.10	2,238.83	18.96
2015	117.46	2,043.94	17.40
2014	118.78	2,058.90	17.33
2013	109.68	1,848.36	16.85
2012	103.80	1,426.19	13.74
2011	97.82	1,257.60	12.86
2010	85.28	1,257.64	14.75
2009	60.80	1,115.10	18.34
2008	65.47	903.25	13.80
2007	85.12	1,468.36	17.25
2006	88.18	1,418.30	16.08
2005	76.28	1,248.29	16.36
2004	67.10	1,211.92	18.06

The SPX (S&P 500) price is as of year-end for the period indicated except for the current year and next year which show the SPX price as of Friday. All earnings and estimates are per Thomson Reuters I/B/E/S as of the current month. Remember the p/e for this year and future years are based on forward ESTIMATES, whereas past years p/e were calculated based on trailing earnings. Also, forward estimates are usually revised downward over time.

ECONOMY	GDPNow	NowCast	BEA*
Q1 2019 Estimate	0.30%	0.88%	
Q1 2019 Δ for Week		-0.32%	
Q4 2018	1.80%	2.26%	2.60%
Q3 2018	3.60%	2.18%	3.40%
Q2 2018	3.80%	2.78%	4.20%
Q1 2018	2.30%	2.97%	2.20%
Q4 2017	3.40%	3.88%	2.90%
Q3 2017	2.50%	1.60%	3.20%
Q2 2017	2.80%	2.09%	3.10%
Q1 2017	0.20%	2.70%	1.40%
Q4 2016	2.90%	2.10%	2.10%
Q3 2016	2.10%	2.20%	3.50%
Q2 2016	1.80%	2.10%	1.40%
Q1 2016	0.60%	0.72%	0.80%

*Bureau of Economic Analysis is the official government estimate.

TREND	VTI	SPY	VXUS	AGG
1-Year	Up	Up	Down	Up
6 Months	Down	Down	Down	Up

Past performance does not guarantee future results.

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