New year — same market issues

Date: January 3, 2019

While earlier this week was spent wishing all a “Happy New Year,” the stock market extended its “grumpy” December into a “dour” start to 2019. Including dividends, the S&P 500 lost 13.5 percent in the fourth quarter, dragging 2018 to a loss of 4.4 percent for the year. So far in 2019, prices have declined slightly and news flow has been generally negative, which is in line with our current outlook on the global economy. Until the macroeconomic story stabilizes, we expect market sentiment will remain under a cloud in the near term. Further price deterioration is likely to beget additional erosion in investor sentiment. However, despite the near-term problems for investor sentiment, we remain generally optimistic on the domestic economy and stock market earnings story as 2019 unfolds. While growth is slowing, we believe the trend is likely to be positive, supporting a slower but growing earnings story for stocks.

As we start 2019, news flow has generally remained negative.

- On January 2, Apple warned fourth quarter 2018 revenues would be below previous expectations, the first revenue forecast cut by Apple in more than 15 years.
- December U.S. purchasing manager manufacturing activity surveys were quite disappointing, with the Markit survey dropping to its lowest reading in 14 months and the Institute of Supply Management (ISM) survey falling to its lowest level in two years.
- China purchasing manager surveys for December signaled contraction for the first time in 18 months.
- The U.S. government shutdown continues, nearing two full weeks.

On the positive side for the United States, the December jobs report (due for release on January 4) is expected to be solid, with a strong preliminary report on payrolls growth from ADP and initial jobless claims remaining near the lowest levels in 45 years. Strong jobs growth and solid, though not excessive, price inflation appears to be fulfilling the Federal Reserve’s (Fed’s) Congressional mandate for full employment and controlled inflation. This should allow the Fed to continue its path of interest rate increases, at least over the near term.

As we enter 2019, we maintain a view of more balanced portfolio risk allocations between stocks and bonds. While stocks have been under pressure over the past quarter, the fundamental story remains modestly positive and should contribute to better returns over the full course of 2019. Bonds experienced a rough 2018, with the Bloomberg Barclays Aggregate Bond Index providing a total return of just 0.01 percent as interest rates rose. Fed rate hikes should limit total returns in the near term, but higher current interest rates, when compared to a year ago, should provide better returns for high-quality bond investors.

Should conditions warrant, we will, of course, provide further updates to our investment guidance. In the meantime, please consult your U.S. Bank Private Wealth Advisor for further guidance or to obtain a copy of our 2019 Outlook commentary.
SITUATION ANALYSIS
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Past performance is no guarantee of future results. Indexes mentioned are unmanaged and are not available for direct investment. The S&P 500 Index consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market in general. The Bloomberg Barclays Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities.

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