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Bob LeClair's Finance and Markets Newsletter

For the week ending: February 9, 2019

THE ECONOMY

The evidence continues to trickle in that the U. S. economy is doing well and that the likelihood of any real recession or downturn any time soon is very small. Consider the following:

1. The labor market is strong. We're averaging more than 200,000 new jobs each month, far more than what is needed to keep up with population growth.

2. The nation's unemployment rate is just four percent, near historic lows, even though we're pulling many new workers into the labor force.

3. Wage growth is accelerating, keeping ahead of inflation, and providing workers with their first real (inflation-adjusted) wage gains in decades.

4. Economic growth (GDP) has spiked in recent months due to tax cuts and fiscal policy (government spending). Growth will slow later this year, but still keep ahead of most other countries.

Despite all of the above, there's a somber tone across the country, as if all of these good things can't last forever. What's causing the depressed mood? Politics, mostly. Gridlock in Washington, DC continues, and we're only a few days away from another potential government shutdown.

There's also a wide range of foreign concerns, from the impact of a hard "Brexit" in Europe, to heightened tariff and trade wars with China, to worries about the possibility of a civil war in Venezuela, which could impact world oil supplies.

Speaking of foreign issues, the nation's trade deficit with the rest of the world continues to run at the rate of about $50 billion each month. Despite the Trump administration's claims, tariffs weaken the economy through higher prices for imported goods. In effect, consumers pay the tariff's, not China. Those tariffs are scheduled to increase on March 1, unless China and the U. S. find a way to resolve their trade differences.

THE MARKETS

Market Indicator	Week's Change	Year-to-Date Change
Dow Jones Industrials	+0.17%	+7.63%
S & P 500 Stock Index	+0.05%	+8.02%
NASDAQ Composite	+0.47%	+9.99%

The major market indicators eked out small gains last week, adding to their surprisingly strong performance for the year so far. Eight percent capital gains for the S & P 500, added to two percent in dividends, yields a total return of approximately ten percent. Not bad for markets facing economic, financial, and political issues foreign and domestic.

Can share prices continue to move upward? In my opinion, that depends on the strength of corporate revenues and earnings for the balance of 2019. Just about everyone expects the growth rate of corporate earnings to slow dramatically from the twenty plus rate they recorded in 2018. So, that's already been discounted by the market.

But, slow growth doesn't mean no growth. If earnings per share can gain by even the mid-single-digits, share prices could move upward. And, by the end of 2019, many of the uncertainties now facing the market will likely be resolved, including China, "Brexit," and earnings.

The financial sector continues to be a burden for the markets. Fed policy, trade issues, and interest rates have combined to hold down share prices for the major banks and other financial institutions. The looming national debt ceiling will only add to the complexity of the situation. Don't expect much out of the financial sector in the near future.

The U. S. dollar strengthened appreciably this week, which will tend to drive up imports and reduce exports. That will only add to the nation's trade deficit picture mentioned above (see, *The Economy*). Let's hope that the ongoing trade negotiations with China will yield some positive results, and lower the tensions between the two countries. March 1 is a key date in those talks, as tariffs on Chinese goods are scheduled to increase from ten percent to twenty-five percent on that date.

Oil prices slipped a bit last week, but still seem firmly rooted above $50 per barrel. That's high enough to keep the fracking business going in the U. S. and to moderate the impact of the chaos in Venezuela. Gasoline prices have been relatively stable, and are just about where they were at the beginning of the year.

For this week's market data summary, click here: http://www.leimberg.com/finance

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FINANCIAL FACT OF THE WEEK

The *Organization for Economic Cooperation and Development* (OECD) recently issued a report on labor productivity, which measured Gross Domestic Product (GDP) per hours worked. The most productive countries were:

1. Ireland
2. Norway
3. Germany
4. United States
5. France

Hope you'll find this information useful, both personally and in dealing with your clients.

Bob LeClair

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