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Bob LeClair's Finance and Markets Newsletter

For the week ending: February 16, 2019

THE ECONOMY

Let's start this week's newsletter with a quiz. What was the rate of inflation in the U. S. for the month of January 2019? Answer: none; the Consumer Price Index (CPI) was zero. What was the rate of inflation in the U. S. for the month of December 2018? Answer: none; the Consumer Price Index (CPI) was zero. What was the rate of inflation in the U. S. for the month of November 2018? Answer: none; the Consumer Price Index (CPI) was zero.

Are you starting to get the picture? There is virtually no economic data to suggest that we have to worry about inflation at this time. Even so-called "core" CPI, which excludes food and energy prices, has been tame. In seven out of the last eight months, core CPI has increased by only 0.2%. The main reason for the tepid increase in prices has been a drop in the cost of energy.

To be fair, maybe we should look at year-over-year changes in addition to monthly results. Even on an annual basis, there's little evidence that inflation is a problem. In three of the past four months, the annual rate of change for inflation has declined, falling to just +1.5% in January.

Looking carefully at this data, it seems to me that we can draw two fairly broad conclusions:

- Real wage gains (adjusted for inflation) are increasing. Recent employment reports show wages growing at about three percent on an annual basis. If inflation is barely two percent, then workers' purchasing power is gaining by the difference of about one percent.

- The Federal Reserve has little or no reason to increase short-term interest rates. Where just a few months ago, the Fed's Open Market Committee (FOMC) indicated that it was likely to raise rates multiple times in 2019, their recent statements emphasize "patience" with fewer or no increases any time soon.

Bottom Line: Inflation? There's not enough to worry about.

THE MARKETS

Market Indicator	Week's Change	Year-to-Date Change
Dow Jones Industrials	+3.09%	+10.96%
S & P 500 Stock Index	+2.50%	+10.72%
NASDAQ Composite	+2.39%	+12.62%

Stock markets surged higher last week, with all three of the major indicators registering double-digit gains for the year so far. What's driving share prices higher? Consider the following:

- **Corporate earnings** – while just about everyone expects earnings to grow a lot slower this year than last, too many analysts had predicted an actual drop in earnings, not just a slowdown in growth. They're revising their predictions upward based on a more positive feeling about corporate performance.

- **No government shutdown** – to the surprise of many, Congress and the Trump Administration finally cobbled together legislation that (1) avoided a second federal shutdown, (2) funded the government through the rest of the fiscal year, and (3) provided the President with some additional funds for border security.

- **Hopeful trade talks** – while barely moving, trade talks with China were at least headed in the right direction. Treasury Secretary Mnuchin was in China last week, which signaled some progress. There's an increasing likelihood that higher tariffs on Chinese goods will be pushed back from the current March 1 deadline.

- **Federal Reserve Policy** – that old market saying of "Don't fight the Fed," seems to have morphed into "Don't fear the Fed." Recent statements by Chairman Powell and other Fed folk suggest that any increase in short-term interest rates won't come any time soon. My guess is that we'll get one more increase, but no sooner than June.

There are still some significant headwinds, however, that might keep prices tethered just about where they are. These include: (1) slower growth in China, (2) stalled "Brexit" negotiations and weak growth in the EU, and (3) political gridlock in Washington.

Even so, let's be grateful for the strong start we've had this year, and hopeful that the momentum will keep up in the months to come.

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

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FINANCIAL FACT OF THE WEEK

Mortgage rates spiked last week on conventional 30-year loans (4.37%), but are still below where they were at the beginning of the year. The housing sector hasn't fully participated in the overall economic advance we've had so far this year.

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

Bob LeClair

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