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Bob LeClair's Finance and Markets Newsletter

For the week ending: January 12, 2019

THE ECONOMY

As many of you know, I'm a fan of old sayings. This week's example could be, "The more things change, the more they stay the same." An adaptation of that one might be, "What goes around, comes around." Either version could apply to our current economic and financial situation.

It may be a New Year, with a new Congress, but we still have an unpredictable President, a slowing economy, little or no real inflation, low unemployment, and a volatile stock market at home. Abroad, we're facing weaker growth in China and other emerging markets, the prospect of a messy "Brexit" departure of the U. K. from the European Union (EU), and political uncertainty in the Middle East. Welcome to 2019!

Evidence on the inflation front continues to be moderate. Last week's report on the Consumer Price Index (CPI) showed an actual decline of -0.1% for December 2018. Core CPI, which excludes food and energy prices rose +0.2%. Year-over-year comparisons were +1.9% for top line CPI and +2.2% for core CPI. As noted by the folks at Moody's Analytics, "*Inflation isn't an immediate concern*."

What is of concern is the slowdown in U. S. economic growth. Shortly after last year's tax package was passed, it boosted growth to more than four percent. That dipped to three plus percent later in the year as tax benefits eased through the economy. Today, most economists are predicting a two percent figure for 2019, and some are even lower.

As if that wasn't worrisome enough, the current government shutdown will only add to the problem. It's estimated that each week that the shutdown in Washington continues, more than a $billion will be knocked off of GDP. The shutdown affects not only government workers, but all of those businesses, big and small, that depend on work from the government.

However, slower growth, the economic impact of the government shutdown, and political uncertainty is a recipe for delayed action as far as the Federal Reserve is concerned in dealing with short-term interest rates. Most analysts now don't expect an increase in the so-called "Fed Funds" rate until at least this coming summer, if then. Many believe that the Fed's FOMC Committee is done for the year as far as rates are concerned, but that they will continue to sell off holdings in their bloated bond portfolio.

THE MARKETS

Market Indicator	Week's Change	Year-to-Date Change
Dow Jones Industrials	+2.40%	+2.87%
S & P 500 Stock Index	+2.54%	+3.57%
NASDAQ Composite	+3.45%	+5.07%

The markets may not be able to leap tall buildings in a single bound, ala Superman, but they do seem to have the ability to climb a wall of Wall Street worries. The major market indicators all turned in strong performances last week, continuing their momentum into the New Year.

The gains may be due partly to a lot of tax-related overselling that took place at the end of last year. Holding onto those gains, and extending them, however, will depend on financial results for 4Q and for all of 2018, and also management's guidance for the coming year. Woe to those firms who don't meet the market's expectations.

A good example of what can happen to firms with disappointing results is Apple (APPL). Tim Cook, Apple's CEO, recently indicated that the company was cutting its forward revenue guidance due to slowing iPhone sales in China. Even though the cutback was relatively modest, Apple shares took a dramatic nosedive, and are likely to stay under continued pressure for the foreseeable future. Apple shares are down about a hundred points from their 2018 high.

As noted above (see *The Economy*), expectations are for the Federal Reserve to delay further increases in short-term interest rates until later in 2019, if then. Some have even predicted that it's more likely the Fed will consider a drop in rates before there's any increase. I don't think that's likely, but it does indicate the confused state of financial markets at this time.

Mortgage rates dipped last week, but not enough to spark any significant move in the real estate sector. Until that happens, it's not likely we'll see any real pickup in the U. S. economy. The supply of new homes is very tight, but demand from younger home buyers seems even weaker.

The U. S. dollar continues to hold relatively steady against the Euro (€) and the Japanese Yen (¥). Even so, don't be surprised if many companies, with lots of overseas business, blame a strong dollar for revenue and earnings weakness.

Crude oil seems to have found a comfortable price level in the mid-forties to the mid-fifties per barrel. That's a long way from the hundred dollar plus range that was speculated on just

a few short week ago. Also, as long as oil remains relatively quiet, gasoline prices aren't likely to spike either.

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

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FINANCIAL FACT OF THE WEEK

Shown below are Fourth Quarter and 12-month mutual fund returns for October 1 – December 31, 2018.

Fund Category	12-months	4th Quarter
Municipal Bonds	+1.2%	+0.9%
Taxable Bonds	-1.0%	-0.9%
International Stocks	-13.2%	-10.9%
General Stock Funds	-6.7%	-14.5%

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

Bob LeClair

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