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Bob LeClair's Finance and Markets Email Newsletter - Archive Message #992

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Bob LeClair's Finance and Markets Newsletter

For the week ending: February 2, 2019

THE ECONOMY

As usual, last Friday's employment report from the Bureau of Labor Statistics dominated the headlines. Job growth in January was surprisingly strong, with nonfarm payrolls gaining 304,000 jobs. The 3-month average for new jobs was 241,000, the highest figure since June of 2018, though the nation's unemployment rate increased to 4.0%.

The employment report was not all good news, however, as the figure for December was revised downward by 90,000. Adding to the uncertainties about the labor market were the effects of the government shutdown. Some furloughed government workers were counted as employed since they will eventually receive their back pay and benefits. Private sector workers on government contracts may not be so fortunate.

Drilling down a bit into the jobs report showed the following:

- Goods-producing jobs gained by 72,000 – a strong performance that was attributed to good weather during most of the month.

- Service sector jobs continued to dominate, increasing by 232,000. You may have seen various contradictory reports that Foxconn, the foreign electronics giant, was not going to build a plant in Wisconsin, with potentially 10,000 workers, because of high

manufacturing costs in the U. S. Later reports indicated that the company would go ahead with its plans after a conversation with President Trump.

- Average hourly wages moved a bit higher in January, with the year-over-year increase gaining 3.2%, the highest rate in several years.

Bottom Line: The U. S. economy continues to plow forward with (1) extraordinary job growth, (2) increasing wages, and (3) low inflation. As the old song goes, "Who could ask for anything more?"

Our performance is particularly noteworthy in comparison with other countries around the world. The European Union (EU) is struggling, with Italy reporting an official recession for the past two quarters. China's growth is a mystery, as no one really believes that their reported growth of 6.5% is an honest count.

THE MARKETS

Market Indicator	Week's Change	Year-to-Date Change
Dow Jones Industrials	+1.32%	+7.44%
S & P 500 Stock Index	+1.57%	+7.97%
NASDAQ Composite	+1.38%	+9.47%

The major stock markets notched their best month in many a year last week, closing out January with near double-digit total returns, including dividends. Three factors were responsible for driving share prices higher. They were:

1. Decent earnings growth – while 2019 is not expected to show the level of gains recorded in 2018, I think overall earnings gains will be near double-digits when December rolls around.

2. Federal Reserve policy – the FOMC Committee did not change short-term interest rates at its meeting last week, and indicated that it would be "patient" in regard to shrinking its balance sheet. Even more important, Chairman Powell took what was considered to be a dovish stance in regard to future Fed actions. Some felt his statements indicated that the FOMC might not increase rates for all of 2019.

3. End of the government shutdown – while the agreement in Washington only extends to February 15, most analysts don't expect another shutdown. If one did occur, it would be politically frustrating for both Republicans and Democrats, gridlock they would both like to avoid.

January's gains have pretty much exceeded the bashing shareholders took in December, so we're back to square one as far as yearly calculations are concerned.

One surprise in the marketplace has been the performance of the U. S. dollar, which, in my opinion, has been quite stable. Some companies have reported weaker earnings due to their own international circumstances, but the greenback has held steady against the Euro (€), closing last week at €1 = $1.145.

The price of oil shot upward last week and for the month of January as well. Prices are in the mid-$50s per barrel and threatening to go higher. At least part of the rationale is the

worrisome situation in Venezuela, where a civil war is threatening. The U. S. government has imposed sanctions and restrictions which could reduce oil supplies into the U. S.

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

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FINANCIAL FACT OF THE WEEK

The U. S. as a safe harbor? Foreign capital flows into the U. S. have been positive for the last five months, but very little of that money finds its way into common stocks. Foreign investors have been net sellers of U. S. equities for the past seven months. Most of their capital ends up in Treasury and Agency bonds.

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

Bob LeClair

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