



February Market Update: U.S. Stocks Have Best Start to a Year in Three Decades as Wall Street Shakes Off Bear Market

After a disastrous fourth quarter, Wall Street and global stocks are on firm footing once again. For U.S. equity markets, this past January was the best start to a year in over three decades. Positive earnings surprises and optimism surrounding U.S.-China trade negotiations helped the major indexes claw back some of the brutal losses incurred in December.

Stocks Rebound

All of Wall Street's major indexes headed for huge gains in January. The Dow Jones Industrial Average climbed 7.2% during the month, the best January since 1985. The broad S&P 500 saw an increase of 7.9%, its best start to a year since 1987. The technology-focused Nasdaq Composite Index surged 9.2%.¹

Positive earnings surprises from the likes of Facebook Inc. (FB), Apple Inc. (AAPL) and Goldman Sachs Group Inc. (GS) aided in the recovery effort. As of Feb. 1, the blended earnings growth rate for S&P 500 companies was 12.4%, according to financial research firm FactSet. More than two-thirds of actual earnings have surpassed analysts' forecasts while 62% have gone above revenue estimates.²

Markets were also aided by crucial developments in U.S.-China trade negotiations. The Trump administration is reportedly weighing removing all tariffs on Chinese imports to get Beijing to make concessions elsewhere. In response, Beijing has offered to fully eliminate its \$323 billion trade surplus with the United States in six years.³



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Gold Rush

Demand for gold and other safe haven assets surged last month amid signs of a slowing global economy. Gold futures rose above \$1,300 a troy ounce in January and eventually reached a settlement high of \$1,325.20 in the final session of the month. That was the highest since April. Since the start of November, bullion has gained 9%.

Gold received a boost after the Chinese government reported the weakest pace of annual growth in 28 years. China's gross domestic product (GDP) expanded 6.6% annually in 2018. Signs of stagnation picked up in the latter half of the year, with the economy growing just 6.4% annually in the fourth quarter.⁴

A slow-growing China was one of many factors that contributed to the International Monetary Fund's downward revision to global economic growth in 2019 and 2020. The Washington-based lending institution expects the global economy to grow 3.5% this year, down from a prior estimate of 3.7%.

Meanwhile, the U.S. Federal Reserve took a dovish turn in its first policy meeting of 2019. In the official policy statement, central bankers dropped language concerning forthcoming interest rate hikes and said they would adopt a "patient" approach to monetary policy.⁵

Government Shutdown Ends Temporarily

The longest government shutdown in U.S. history came to an end on Jan. 25 after President Trump and congressional leaders agreed on a temporary stopgap measure that would reopen the affected agencies for three weeks. The agreement was reached after a 35-day furlough of roughly 800,000 federal workers.

The temporary spending bill does not fund President Trump's proposed border-security wall with Mexico but merely extends previous funding levels. The president has warned that he will declare a national emergency in three weeks' time should Congress fail to approve \$5.7 billion in funds for the proposed barrier.⁶

Employers didn't let the government shutdown affect their hiring plans, according to the Department of Labor's January nonfarm payrolls report. The economy added 304,000 workers last month, well above the median estimate of 165,000 and far exceeding last year's average monthly job growth.⁷

The Month Ahead

The United States and China are racing to get a trade deal in place by a self-imposed deadline of Mar. 1. However, U.S. Commerce Secretary Wilbur Ross says both sides



remain “miles and miles apart” on a comprehensive agreement. Negotiations could face obstacles after the Department of Justice filed criminal charges against Huawei, a Chinese telecom giant, for trying to steal trade secrets and for conducting corporate espionage.

Sincerely,

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¹Erik Sherman (Feb. 1, 2019). “U.S. Stocks Have Their Best January in 30 Years.” Fortune.

²FactSet (Feb. 1, 2019). Earnings Insight.

³Sam Bourgi (Jan. 18, 2019). “Bye-Bye Trade War? China Plans \$1 Trillion Buying Spree to Reduce US Trade Deficit.” CCN.com.

⁴Huileng Tan (Jan. 21, 2019). “China's economy grew 6.6% in 2018, the lowest pace in 28 years.” CNBC.

⁵The Associated Press. (Jan. 30, 2019). “Fed leaves interest rates steady, says will be 'patient' on future hikes.” CBC.com.

⁶Sam Bourgi (Jan. 25, 2019). “Breaking: Trump, Congress Agree to Reopen Government for Three Weeks.” CCN.com

⁷Sam Bourgi (Feb. 1, 2019). “Dow Smashes Through 25,000 after Blowout Jobs Report Pours Cold Water on Government Shutdown Fears.” CCN.com.

