



Markets Gain Again

Weekly Update – February 4, 2019

Last week closed out one of stocks' top January performances in years. In fact, both the S&P 500 and Dow posted their best January results in at least 3 decades.ⁱ For the week, major domestic indexes were also up. The S&P 500 gained 1.57%, the Dow added 1.32%, and the NASDAQ increased 1.38%.ⁱⁱ The Dow's performance marked its 6th week of gains in a row.ⁱⁱⁱ Internationally, MSCI EAFE stocks also posted growth, rising 0.91%.^{iv}

What drove stock results last week?

As discussed in our previous market update, last week provided a number of details for investors to focus on. Here are some key items that contributed to market performance:

1. **Federal Reserve Meeting:** The Fed chose not to increase interest rates above its current 2.25% – 2.50% target. When releasing this update, the central bank noted that it would be “patient” when deciding about any future increases.^v

Market Impact?

The Fed's signal that additional rate hikes may not be imminent helped improve market confidence.^{vi}

2. **Corporate Earnings:** By Friday, nearly half of S&P 500 companies had released earnings data for the 4th quarter of 2018. Of them, 70% had higher earnings-per-share than expected and 62% beat revenue projections. Right now, the S&P 500 is poised to have its 5th quarter in a row of double-digit earnings growth. However, the currently projected growth of 12.4% is lower than it has been since 2017.^{vii}

Market Impact?

With worries of disappointing results calmed, some investors are feeling relieved by earnings season so far.^{viii}

3. **January Labor Report:** The latest Employment Situation release from the Bureau of Labor Statistics showed that the economy added 304,000 new jobs in January. At the same time, the unemployment rate increased slightly, as the count included furloughed federal workers. The latest data also indicated that December job growth was lower than initially reported.^{ix}



Market Impact?

The January job growth was much higher than investors expected and implied the partial government shutdown minimally affected the U.S. economy. These perspectives helped drive stock gains on Friday.^x

This week, we will continue to monitor corporate earnings season and will follow any developments in the U.S.–China trade negotiations. We will also watch for new data releases, especially those previously delayed by the government shutdown. If you have any questions, we're here for you.

ECONOMIC CALENDAR*

Monday: Motor Vehicle Sales, Factory Orders

Tuesday: PMI Services Index, ISM Non-Mfg Index

Wednesday: Jerome Powell Speaks

Thursday: Jobless Claims

*The federal government shutdown may delay some data releases.

DATA AS OF 2/1/2019	1 WEEK	SINCE 1/1/19	1 YEAR	5 YEAR	10 YEAR
STANDARD & POOR'S 500	1.57%	7.97%	-4.09%	8.71%	12.60%
DOW	1.32%	7.44%	-4.29%	9.81%	12.10%
NASDAQ	1.38%	9.47%	-1.65%	12.10%	17.27%
INTERNATIONAL	0.91%	6.41%	-15.05%	-0.08%	5.08%
DATA AS OF 2/1/2019	1 MONTH	6 MONTHS	1 YEAR	5 YEAR	10 YEAR
TREASURY YIELDS (CMT)	2.41%	2.46%	2.56%	2.51%	2.70%

Notes: All index returns (except S&P 500) exclude reinvested dividends, and the 5-year and 10-year returns are annualized. The total returns for the S&P 500 assume reinvestment of dividends on the last day of the month. This may account for differences between the index returns published on Morningstar.com and the index returns published elsewhere. International performance is represented by the MSCI EAFE Index. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.



TAX TIPS

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Home Office Deduction

If your home is your principal place of work and you dedicate an office or portion of your home to work, then you may be able to deduct expenses. This applies to homeowners and renters alike. Here are some requirements to consider for this deduction:

You use your home office regularly and exclusively, and your home is your principal place of business.

- Whether you have an office, studio, or portion of your home for work, you'll need to figure out the percentage of your home that is dedicated to business. You can still deduct expenses even if you carry on your business in another location as well.
- If the use of the home office is merely appropriate and helpful, you cannot deduct expenses for the business use of your home.

If you are an employee and you use a portion of your home for business, you may qualify for a deduction for its business use. Added requirements:

- Your business use must be for the convenience of your employer.
- You must not rent any part of your home to your employer and use the rented portion to perform services as an employee for that employer.

* This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax professional.

Tip adapted from IRS.gov^{xi}

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Diversification does not guarantee profit nor is it guaranteed to protect assets.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia, and Southeast Asia.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

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Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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ⁱ <https://www.cbsnews.com/news/stocks-today-sp-500-posts-best-january-since-1987/>

ⁱⁱ <http://performance.morningstar.com/Performance/index-c/performance-return.action?t=SPX®ion=usa&culture=en-US>



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<http://performance.morningstar.com/Performance/index-c/performance-return.action?t=%21DJI®ion=usa&culture=en-US>

<http://performance.morningstar.com/Performance/index-c/performance-return.action?t=@CCO>

<https://www.reuters.com/article/us-usa-stocks/wall-street-advances-on-washington-temporary-shutdown-deal-idUSKCN1PJ1GK>

iii <https://www.cnbc.com/2019/02/01/stock-market-payrolls-data-earnings-in-focus-.html>

iv <https://www.msci.com/end-of-day-data-search>

v <https://www.federalreserve.gov/newsevents/pressreleases/monetary20190130a.htm>

vi <https://www.bostonglobe.com/business/2019/01/31/delivers-biggest-monthly-gain-since/BKTzYZj4uz4D2ApeKaLhWM/story.html>

vii https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_020119.pdf

viii <https://www.cnbc.com/2019/02/01/stock-market-payrolls-data-earnings-in-focus-.html>

ix <https://www.bls.gov/news.release/empsit.nr0.htm>

x <https://www.marketwatch.com/story/stock-futures-steady-ahead-of-january-jobs-report-2019-02-01?dist=markets>

xi <https://www.irs.gov/businesses/small-businesses-self-employed/home-office-deduction>

DENT

DIGEST

A BROAD LOOK AT IMPORTANT TRENDS THAT YOU MIGHT HAVE MISSED THIS WEEK

Weekly Dent Digest 2/1/2019

The U.S. Economy Created 304,000 Jobs in January... The unemployment rate ticked up 0.1% to 4% as workers rejoined the workforce.

What it means – You might ask, how is it possible that we shut down the government, keep almost one million workers from their jobs, and yet it doesn't affect the employment situation? Good question. The answer – the Bureau of Labor Statistics (BLS) counted them anyway. The BLS reasoned that the workers were only furloughed, and would receive back pay once the shutdown ended, so it doesn't really count. That sounds reasonable, but it makes you wonder what else the BLS fudges.

Deeper in the January jobs report, the BLS revised the previous reports down by 70,000, but overall the report showed strength across the U.S. economy. Our old friend, the birth/death adjustment, isn't useful in January because this is when the BLS reconciles its data to the national income reports.

The Shutdown Is Over, For the Moment... President Trump agreed to fund the government for three weeks as long as Congress works toward a deal on border control.

What it means – Federal workers were back on the job, and by today they were supposed to have collected all back pay. Congressional leaders began negotiating a compromise over border wall funding and immigration, but they don't have much time. President Trump agreed to fund the government only through February 15. However, there might be a way out. The Congressional Research Service reported that Trump could bypass Congress and fund the wall without declaring an emergency. If Congress doesn't come up with a deal he likes, chances are he will build the wall without them.

The good news is that if the president goes down this road at least the government will remain open.

It will take agencies from the Bureau of Economic Analysis to the Census Bureau some time before they have crunched all the numbers and can release overdue economic reports.

Federal Reserve Sounds a Dovish Note... Fed Chair Powell stated that the case for raising rates had weakened, and the Fed allowed that it could tweak its balance sheet reduction program.

What it means – Investors wanted the Fed to show them the love, and they weren't disappointed. The central bank didn't raise rates, but that was widely expected. The Fed went further, noting that the headwinds facing the economy, from the government shutdown to the trade war, have shaken things up enough to where we don't need higher rates at the moment. In addition, the Fed noted that it can change its stance on shrinking its balance sheet, meaning they can stop shedding bonds, at any time.

This fits right in line with Powell's repeated statement that the Fed is "data driven," which is the way that central bankers give themselves room to change their minds anytime.

Investors took this to mean that the Fed will move to a neutral stance, neither expanding nor contracting money supply. Based on the Fed announcements, investors bought Treasury bonds, driving 10-year interest rates below 2.7%, and the equity markets shot higher.

S&P/CoreLogic Case-Shiller 20-City Home Price Index Up 4.7% in November Over Last Year... Home prices marched higher, but at a slower pace, falling from the 5% growth rate in October.

What it means – There's nothing new in this report. Home prices have been flattening or falling in several markets, pulling down the overall growth rate for months. We started the year with prices up 6% over last year, and the gains have steadily eroded since mid-summer. By summer of this year, we should see the home price index gains close to zero.

New Home Sales Jumped 16.9% in November... Following weak sales in October, new home sales rebounded strongly in November, but the annual sales rate remains 7.7% below 2017.

What it means – The data is two months old, and it's from that long-ago period before the December 2018 meltdown and the longest government shutdown in U.S. history, so we have to take it with a grain of salt. But there is some useful information tucked into the belated release.

Along with rising sales, we also had falling prices. The median new home went out the door at \$302,400, which is 7% lower than the median price in October and 11.9% less than the median price in November of 2017.

It looks like homebuilders were discounting like crazy to get inventory out the door. In a weird turn of statistics, more homes were put on the market, but months' supply fell because homes were sold at a faster pace.

Japanese Senior Citizens Committing Crimes, Hoping For Prison... They're not crazy. With limited funds, few friends, and little family, older Japanese citizens are making the calculation that going to prison isn't such a bad deal. As the old saying goes, it can't be all bad because you get "three hots and a cot" for free!

One elderly convict noted that he'd stolen a bicycle and ridden it to the police station to report his crime. He was sentenced to a year behind bars. After that, he took a knife to a park and threatened women until one of them called police, which was his goal. That got him sent back up the river.

The man explained that the process works out well because the government pays his pension even as he languishes behind bars, so when he gets out, he's actually saved a little cash.

A female inmate points out that, in addition to free room and board, inmates also benefit from forced socialization.

Next Week – The only economic report of note scheduled for next week is factory orders, but we should also get many delayed reports, such as GDP.

A handwritten signature in black ink, appearing to be the name 'Rodney' written in a stylized, cursive script.

Rodney

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