



Stocks Dip on Growth Concerns

Weekly Update – March 11, 2019

The Week on Wall Street

As in February, investors spent most of the first full trading week of March hoping for new details in U.S.-China trade negotiations. While they waited, stock benchmarks drifted downward. From Monday's open to Friday's close, the S&P 500 lost 2.55%, while the Dow Industrials took a 2.66% fall, and the Nasdaq Composite weakened 3.12%. The MSCI EAFE index tracking developed markets outside the U.S. and Canada fell 1.09%.^{i,ii,iii,iv}

Why did stocks lose momentum? In a hint that global economic growth might be slowing, the European Central Bank abruptly reduced its 2019 Gross Domestic Product forecast for the eurozone from 1.7% to 1.1%. A disappointing reading on U.S. hiring also raised questions.^v

Perplexing Jobs Data

According to the Department of Labor, the economy generated only 20,000 net new jobs in February. This was the smallest monthly gain since September 2017. Nevertheless, the unemployment rate fell to 3.8%, while underemployment declined sharply to 7.3%. (These decreases could reflect furloughed federal employees returning to work.) The average wage rose 3.4% in 12 months, the largest year-over-year increase in a decade.

Harsh winter weather may have impeded hiring last month, and February's payroll growth could be revised in the Department of Labor's next report.^{vi}

Earnings Season Recap

The fourth-quarter reporting season is all but over. FactSet notes that the S&P 500 has seen earnings growth of 13.4% in Q4, marking the fifth straight quarter with a double-digit rise.^{vii}

Final Thought

Stocks lost ground last week, breaking a long string of weekly advances. The extended rally partly reflected optimism that the U.S.-China trade dispute would soon be resolved, but a deal may or may not happen. The week offered a reminder that Wall Street sees both ups and downs. Day-to-day market fluctuations should not cause you to alter your long-term approach.



THE WEEK AHEAD: KEY ECONOMIC DATA

Monday: January retail sales.

Tuesday: The Consumer Price Index, tracking monthly and yearly inflation.

Thursday: January new home sales and February retail sales.

Friday: The University of Michigan's initial March consumer sentiment index, measuring consumer confidence.

Source: Econoday / MarketWatch Calendar, March 8, 2019

The content is developed from sources believed to be providing accurate information. The forecasts or forward-looking statements are based on assumptions and may not materialize. The forecasts also are subject to revision. The release of data may be delayed without notice for a variety of reasons.

THE WEEK AHEAD: COMPANIES REPORTING EARNINGS

Tuesday: Dick's Sporting Goods (DKS)

Wednesday: Smart & Final (SFS)

Thursday: Adobe Systems (ADBE), Broadcom (AVGO), Dollar General (DG)

Source: Morningstar.com, March 8, 2019

Companies mentioned are for informational purposes only. It should not be considered a solicitation for the purchase or sale of the securities. Any investment should be consistent with your objectives, time frame and risk tolerance. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost. Companies may reschedule when they report earnings without notice.



Market Index	Close	Week	Y-T-D
DJIA	25,450.24	-2.66%	+9.10%
NASDAQ	7,408.14	-3.12%	+11.65%
MSCI-EAFE	1,858.11	-1.09%	+8.04%
S&P 500	2,743.07	-2.55%	+9.42%



	Treasury	Close	Week	Y-T-D
	10-Year Note	2.62%	-0.14%	-0.07%

Sources: The Wall Street Journal, Mar. 8, 2019, Treasury.gov, Mar. 8, 2019

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. Weekly performance is measured from Monday's open of trading to Friday's close for the Dow Jones Industrial Average, Standard & Poor's 500 index, and NASDAQ Composite. Weekly performance is measured from Friday's open to Thursday's close for MSCI-EAFE. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points. International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.



TAX TIPS

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Reconstructing Your Records After a Natural Disaster

Fire, hurricanes, and earthquakes – sometimes disaster strikes before we can get prepared. Making an emergency preparedness kit with food, supplies, radio, prescriptions, and important documents is your best bet before a disaster happens. Getting your records together and providing an accurate account of losses after a disaster will help with general tax purposes and will also be required for obtaining federal assistance, grants, loans, or insurance reimbursements. Here are a few tips:

- Take photos and/or video as soon as possible after the disaster.
- Contact title, escrow, or banks to get copies of needed documents. Your real estate broker may have these records as well.
- Research comparable homes in your neighborhood for value.
- Review insurance policies; they can contain a base value for replacement.
- If you made improvements to your home, contact the contractor for verification of costs.
- You can check the county assessor's office for old records.

Reconstructing your records will help you to get re-established should your home be affected by a disaster.

Tip adapted from IRS.gov^{viii}

Share the Wealth of Knowledge!

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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.

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ⁱ <https://quotes.wsj.com/index/SPX>

ⁱⁱ <https://quotes.wsj.com/index/DJIA>

ⁱⁱⁱ <https://quotes.wsj.com/index/NASDAQ>

^{iv} <https://quotes.wsj.com/index/XX/990300/historical-prices>

^v <https://www.cnbc.com/2019/03/07/stock-market-us-china-trade-jobless-claims-in-focus.html>

^{vi} <https://www.usatoday.com/story/money/2019/03/08/jobs-report-just-20-000-added-february-economists-expected-181-000/3098383002/>

^{vii} <https://insight.factset.com/earnings-insight-q418-by-the-numbers-infographic>

^{viii} <https://www.irs.gov/newsroom/reconstructing-records-after-a-natural-disaster-or-casualty-loss-irs-provides-tips-to-help-taxpayers>

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DIGEST

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

Weekly Dent Digest 3/8/2019

The U.S. Created 20,000 Jobs in February, Well Below the 180,000 Estimate... The unemployment rate fell from 4.0% to 3.8%

What it means – Snow, shutdown, misaligned stars – take your pick as to why the establishment payroll survey had such a weak showing. One thing's for sure, no one's buying it. The word of the day is "average," as in, average the payroll numbers, including revisions, over several months, and treat anything really high or low as an anomaly. Adding to that sentiment, the household survey (which is where we get the unemployment figure) showed 255,000 more jobs, not 20,000. On a side note, the birth/death adjustment actually added 137,000 jobs this month on a non-seasonally adjusted basis. The report would've been even worse without this guesstimate.

The interesting part of this report wasn't the headline miss, but the jump in compensation. Average hourly earnings increased 0.4% in February, which is a huge increase for one month, and stand 3.4% higher than last February, the biggest gain since 2009. That's good news for workers.

The markets fell when the payroll number came out, but futures were already more than 100 points lower as investors fret about the global slowdown.

Auto Sales Fell to 16.5 Million Units Annually, Missing Expectations of 16.9 Million... The drop follows weaker than expected sales in December as well.

What it means – Auto sales are a large part of retail sales, so weakness in the industry will drive down other metrics. And the pain can go both ways. As Americans buy fewer cars, automakers will produce fewer units, which will eat into corporate profits, production, and the demand for wholesale goods.

If the weakness continues through March, expect the current first-quarter GDP estimate of 0.3% to be “optimistic.”

December New Home Sales Up 3.7% to 621,000 Units Per Year... The report beat expectations of 590,000, but the previous two months were revised lower by a total of 71,000 units.

What it means – Making matters worse, new home sales were 2.4% lower than December of 2017, capping a pretty dismal year for real estate. The negative vibe flowed over into pricing, where the numbers were up 5% on the month, but down 7.2% for the year. At least buyers have a few more choices, as supply increased 3%.

January Housing Starts Jumped 18.6%, Recouping the Losses from December... Single-family starts increased 25%.

What it means – The dramatic rise in housing starts will give the real estate sector at least one thing to feel good about. More homes under construction should lead to more inventory available in the all-important spring selling season, which might give a spark to the otherwise moribund industry. But it's not all good news. Combining the possibility of more inventory with lower prices for new homes in the previous note on new home sales, this could spell trouble for builders in April and May.

European Central Bank Holds Rates Steady, Restarts Loan Program...

The ECB committed to holding rates steady at least through the end of this year, which was longer than expected.

What it means – The ECB is frustrated because the European economy remains stuck in first gear. After growing at more than 2% in 2017, the economy slowed down last year and is set to bump along just above the zero-growth line this year. The ECB had intended to raise short-term interest rates to something higher than negative 0.4% this year, but those sunny plans are over. Now the bank will hold rates at the current punitive level at least through the end of the year.

In a further capitulation to the economic slowdown, the ECB is restarting its targeted long-term refinancing operations (TLTROs), providing cheap funding

for banks that make loans to non-financial businesses. It's not QE, and it's not exactly bank lending, but it does add financial liquidity at a cheap rate.

The euro dropped on the news, falling below \$1.13, which pushed up the US dollar.

U.S. Government Tries to Claw Back Rail Funds from California... After California Governor Gavin Newsom announced the state would scrap most of the high-speed rail project, the Federal Rail Administration took steps to stop the current federal funding of \$929 million and to get back \$2.5 billion already sent to the state.

What it means – Well, that's going to hurt. Governor Newsom reduced the project to a fraction of its original size, leaving just the beginning stretch from Bakersfield to Merced. He noted that the project was facing insurmountable legal and financing hurdles.

The Trump administration seized on a clause in the federal financing that calls for reasonable progress to end funding. If the federal government is able to end the cash flow, California will have even more trouble completing the project.

Many Democratic Presidential Hopefuls Are High On Pot... Senator Cory Booker reintroduced legislation that will make pot legal across the U.S. He's joined by co-sponsors Kamala Harris, Kirsten Gillibrand, Bernie Sanders, and Elizabeth Warren, among others. Senator Klobuchar is not a co-sponsor of the bill, but has issued a statement expressing her support for legalized pot.

Next Week – The week of March 11 brings reports on retail sales, consumer prices, and durable goods. We'll also get a delayed report on new home sales from January.

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

Rodney

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