



Index	Close	Return	
		Week	YTD
Dow Jones Industrial Average	25,106	0.2%	7.6%
S&P 500 Index	2,708	0.0%	8.0%
NASDAQ	7,298	0.5%	10.0%
Russell 2000 Index	1,507	0.3%	11.7%
MSCI EAFE Index	1,823	-0.4%	6.0%
10-yr Treasury Yield	2.63%	-0.05%	-0.05%
Oil (\$/bbl)	\$52.73	-4.6%	16.1%
Bonds*	\$107.34	0.3%	1.1%

Source: Bloomberg, 02/08/19

*Bonds represented by the iShares U.S. Aggregate Bond ETF

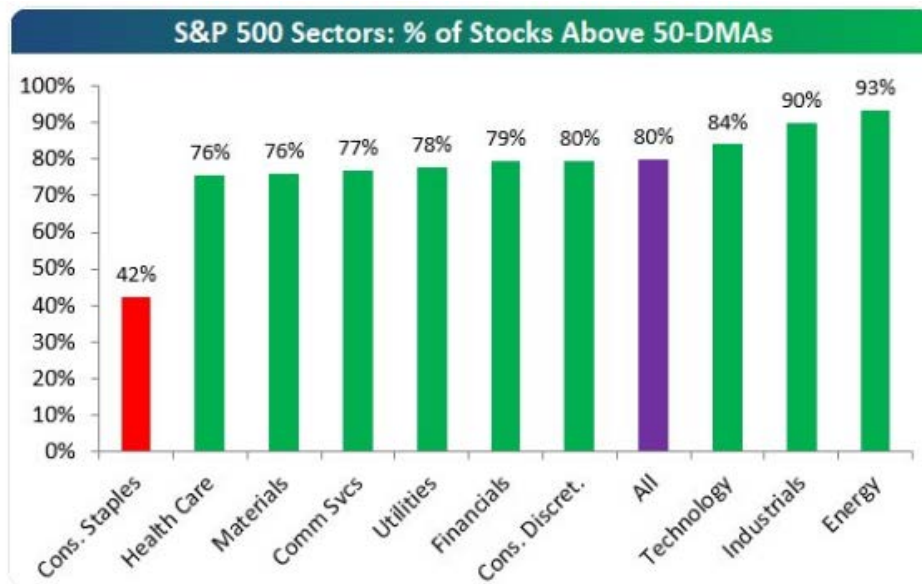
Last Week:

U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) were flattish as reduced optimism for U.S.-China trade talks, weaker European economic forecasts and negative earnings revision trends weighed on markets. BB&T and SunTrust Banks agreed to the biggest bank merger since the financial crisis
 - Utilities (+2.0%), consumer staples (+1.1%), and REITs (+1.4%) outperformed as investors favored defensive sectors
 - Information technology (+1.8%) outperformed led by strength in shares of Apple (+2.3%) and **Microsoft** (+2.8%)
 - Industrials (+1.5%) outperformed on strength in the aerospace and defense industry
 - Consumer discretionary (-0.3%) and communication services (-0.3%) underperformed
 - Healthcare (-0.9%) underperformed as the biotech industry was under pressure led by Biogen
 - Financials (-1.5%) underperformed as weakness in life insurers (Metlife & Prudential) and investment banks (Goldman Sachs & **Morgan Stanley**) overshadowed an M&A-driven rally in the regionals after the BB&T and Suntrust merger was announced. BB&T agreed to acquire Suntrust in an all-stock deal valued at \$66B with an expected closing in the third quarter of 2019
 - Materials (-1.6%) underperformed as chemicals and industrial metals were big decliners
 - Energy (-3.3%) performed the worst as the price of oil fell 4.6% for the week
 - The S&P was up five days in a row through last Tuesday. Since 2011, a five-day winning streak has happened 33 times, with the index closing higher within the next five days in all except one of those instances, according to Jefferies
- The Dow Industrials rose 0.2%, modestly outperforming the S&P 500 Index, and marking the Dow's seventh-straight weekly gain
- Small-cap equities modestly outperformed U.S. large caps in the week as the Russell 2000 Index rose +0.3%, and remains 3.4% ahead of the S&P 500 Index for 2019 after a robust start to the year



- The technology-heavy Nasdaq Composite Index (+0.5%) outperformed the S&P 500 Index, and also notched a weekly advance for the seventh-consecutive week
- As stocks have staged a sharp rebound since Christmas, the vast majority of companies (outside of Consumer Staples) now trade above their 50-day moving average



Source: Jefferies

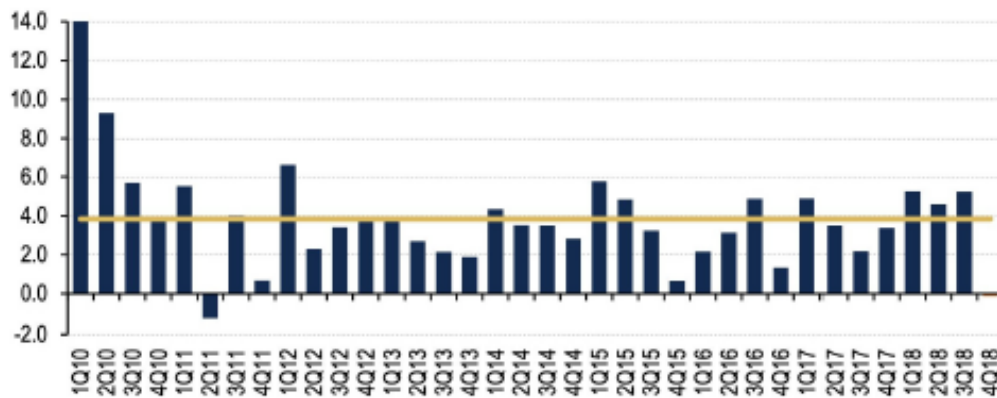
- For the two-thirds of S&P 500 companies that have reported quarterly results thus far, sales and earnings growth generally have been solid

				Sales Growth		Earnings Growth	
	Reported	Total	% Reported	Positive	Negative	Positive	Negative
All Securities	333	500	67%	250	79	249	75
Energy	14	30	47%	11	2	10	3
Materials	15	24	63%	12	3	9	6
Industrials	57	69	83%	46	11	52	5
Consumer Discret.	34	64	53%	23	10	20	11
Consumer Staples	22	33	67%	16	6	16	6
Health Care	45	61	74%	41	4	38	5
Financials	60	68	88%	45	14	42	17
Information Tech.	47	68	69%	26	21	37	9
Telecoms	14	22	64%	12	2	9	5
Utilities	7	27	26%	6	0	2	4
Real Estate	17	32	53%	11	6	13	4

Source: Oppenheimer Asset Management Research and Bloomberg LP

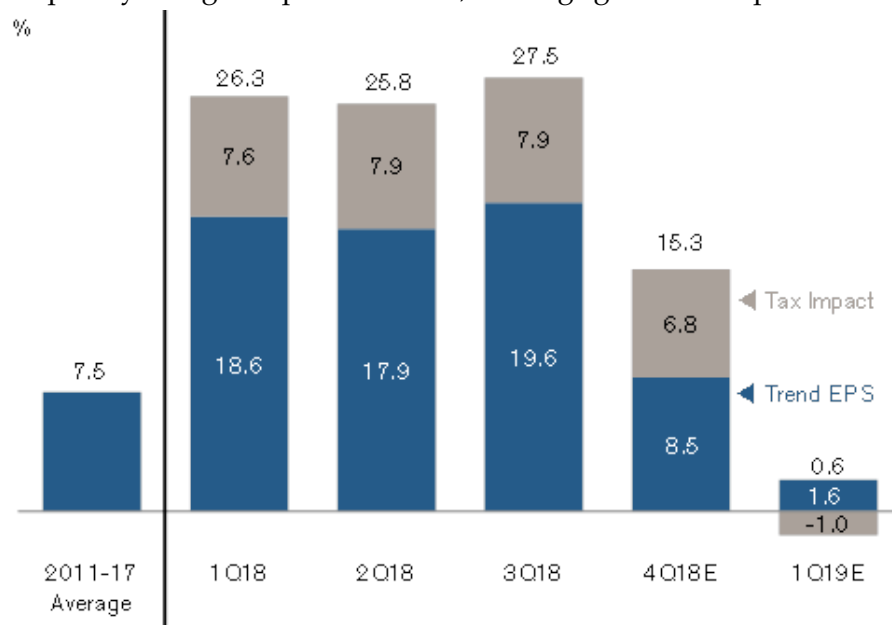
- But the magnitude of companies' earnings surprises is the weakest since 2011

Chart of the day: Era of big beats has come to an end - weakest quarter relative to expectations in 7+years
S&P 500 qtrly. EPS beat (miss) relative to consensus estimates at start of qtr., 1Q10-4Q18 to date (with 73% reported)



Source: FactSet, BofA Merrill Lynch US Equity & US Quant Strategy

- Companies also have been issuing downward guidance at the highest rate in more than two years (according to Morgan Stanley)
- As businesses lap the year-ago corporate tax cut, earnings growth is expected to decelerate



Source: Credit Suisse



International Markets and News

- European equities (STOXX Europe 600) fell (-0.5%) on the European Commission's weaker economic forecast, lower earnings expectations, and global growth concerns
 - Health Care (+1.5%), technology (+1%), food & beverage (+0.9%), and personal & household goods (+0.5%) outperformed. Autos & Parts (-2.3%), financial services (-2.2%), media (-2%), and chemicals (-1.9%) underperformed
 - The EU Commission cut its Eurozone GDP estimate for 2019 to 1.3% from 1.9%, and lowered its 2020 estimate to 1.6% from 1.7%. The Commission cut Italy's growth forecast to 0.2% (i.e. recession) from 1.2%, and reduced its projected growth rates for Germany and France as well. The EU said the outlook is subject to large uncertainty (when isn't it?!?), owing to the slowdown in China and global trade concerns
 - The Eurozone bond markets responded to the Commission's weaker outlook as the German 10-year benchmark fell 8 basis points to 0.08% and the yield curve is now negative out to nine years, with markets pricing in the risk of a recession and a shift in the ECB's rate guidance
 - The Bank of England's (BoE) policy update was dominated by Brexit discussions after it unanimously left its key policy settings on hold. The BoE cut its growth estimate for 2019 GDP to 1.2% from 1.7%, and 2020 GDP to 1.5% from 1.7%
 - With 34% of European companies having reported so far, earnings are on track for the worst quarter since 2014. JPMorgan said that ex-energy, overall EPS growth is outright negative at -1% year over year
- Chinese markets (Shanghai Composite Index) were closed for the Lunar New Year holiday
 - Hope for a trade deal fizzled out after U.S. President Trump said he would not meet his Chinese counterpart, Xi Jinping, before the March 1st deadline, when the U.S. is set to increase tariffs to 25% from 10% on \$200 billion of Chinese imports
 - A meeting between President Donald Trump and China's Xi Jinping is "highly unlikely" before a March 1 deadline, but tariffs are likely to be kept at 10% rather than jump to 25%, CNBC reported. National Economic Council Director Larry Kudlow said there is "considerable distance" still to be reached
- Japanese equities fell -2.2% (Nikkei 225 Index) during the week as a decline in the composite Purchasing Managers Index (PMI) and reduced optimism of a U.S.-China trade deal weighed on markets
 - The Markit/Nikkei Japan composite PMI declined to 50.9 in January from 52.0 in December on weakness in the manufacturing sectors. This decline was partially offset by an increase in the services sector
 - Japan's Government Pension Investment Fund (GPIF), the world's largest pension fund, is thought to have suffered a loss of ¥155.6 trillion (\$1.4 trillion), however, many analysts believe that the GPIF is unlikely to trim its equity positions as local government bond returns remain challenged



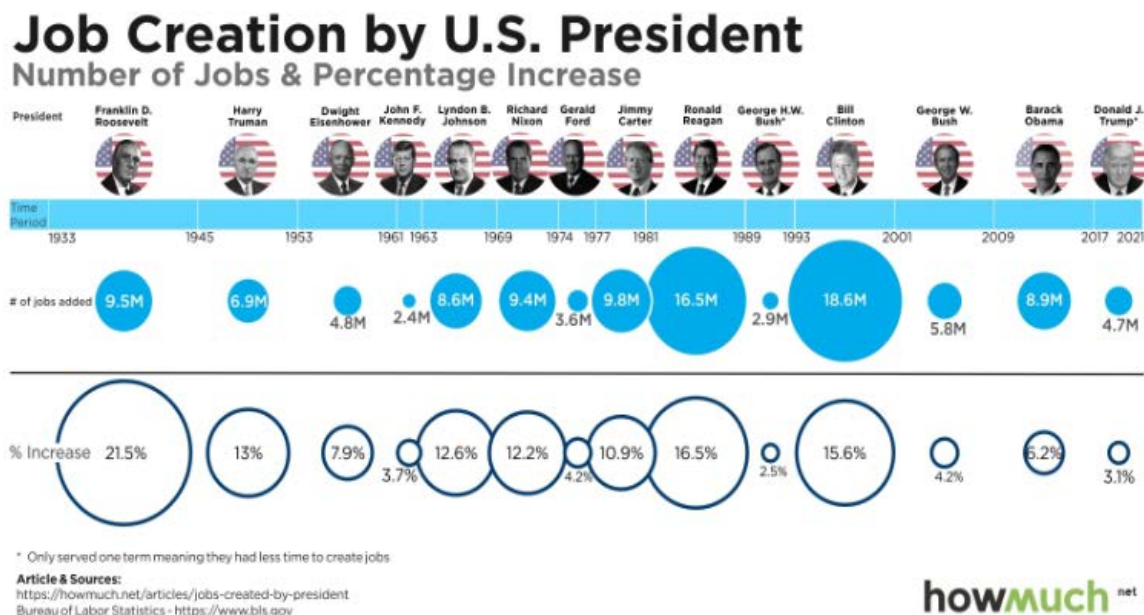
- The Europe-Japan trade deal, which covers approximately 635 million people, went into force in February. The deal was ratified in December 2018, and eliminates Japanese tariffs on about 94% of all imports from the EU, while the EU will eliminate tariffs on about 99% of all imports from Japan over time

Commodities

- The price of gold fell -0.3% for the week
- The price of crude oil fell 4.6%, but remains up over 16% in 2019 after collapsing in the 2nd half of 2018

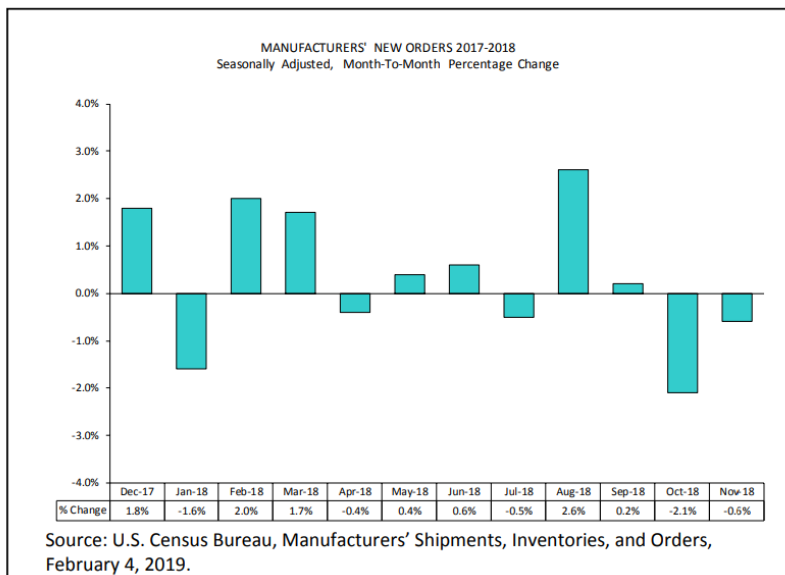
U.S. Economic and Political News

- U.S. 10-year Treasury yields fell to a 13-month low
- St. Louis Federal Reserve President James Bullard said he thinks Fed interest rate policy is “a little bit restrictive, but I recognize that I’m kind of alone on the committee saying that. I’m pretty happy where rates are today. We have to, even today, be more worried about missing to the low side than the high side”
- Economic data was mixed
 - Weekly Jobless Claims printed 234,000
 - Here’s how job creation has stacked up since World War 2, by presidential administration – keep in mind that the figures shown in the graphic below reflect data for the entire time each president spent in office – thus, presidents with multiple terms had more time to add jobs, while President Trump’s figure reflects his first two years in office





- U.S. Factory Orders dropped -0.6% in November – both this report and the one mentioned in the previous bullet were delayed by the government shutdown, thus explaining the reporting of November data in February





This Week:

- Fourth quarter earnings start to slow down, with this week's headlines including, but not limited to: Molina, Huntsman, Under Armour, Trip Advisor, **Fidelity National**, **Occidental Petroleum**, Teva Pharmaceuticals, DISH Network, **Cisco Systems**, **Global Payments**, **Black Knight**, **Waste Connections**, Equinix, Marathon, Netapp, MGM, Avon, Borg Warner, Coca-Cola, Vulcan Materials, **CBS**, Deere, Newell, and **Pepsi**
- U.S. economic data:
 - Monday: Fed Bowman Speech
 - Tuesday: NFIB business optimism (Jan), JOLTs Job Openings (Dec), Fed speakers Powell, George, Mester
 - Wednesday: CPI (Jan), Fed Speakers Bostic, Mester; Monthly Budget Statement
 - Thursday: Retail Sales (Dec), PPI / Core PPI (Jan), Business Inventories (Nov), US Government Temporary funding expires
 - Friday: Import / Export Prices (Jan), NY Empire State Manufacturing Index, Capacity Utilization (Jan), Manufacturing Production (Jan), Industrial Production (Jan), Michigan Inflation Expectations (prelim Feb)
- International economic data:
 - Monday: Euro-zone Eurogroup meeting; UK: Business Investment (Q4), GDP (Dec), Industrial Production (Dec), Manufacturing Production (Dec), Construction Output (Dec), Trade Balance (Dec); China: FX Reserves (Jan)
 - Tuesday: Euro-zone: EcoFin Meeting; Germany: Wholesale prices (Jan); UK: BoE Gov Carney speech; China: Vehicle Sales (Jan); Japan: Machine Tool Orders (Jan), PPI (Jan)
 - Wednesday: Euro-zone: Industrial Production (Dec); UK: PPI (Jan), Core Inflation (Jan), Retail Price index (Jan)
 - Thursday: Euro-zone: Employment Change, GDP (Q4); Germany: GDP Rate (Q4); China: M2 money supply, Total social financing (Jan), Balance of Trade (Jan), Import / Export (Jan); Japan: GDP (prelim Q4)
 - Friday: Euro-zone: Balance of Trade (Dec); UK: Retail sales (Jan); China: Inflation Rate (Jan), PPI (Jan), Industrial Production (Dec); Japan: Industrial Production (Dec), Capacity Utilization (Dec)
- U.S. markets will be closed next Monday, in observance of Presidents' Day

As always, thank you very much for your interest in our thoughts and support of our services

Whitney Stewart, CFA®
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