Rochester Wealth Strategies

439 S Main St, Suite 250
Rochester, MI 48307
(248) 963-2977

In this month's recap: domestic and foreign shares (and many commodities) advance, as two major investor anxieties ease for the moment.

Monthly Economic Update

Presented by Rochester Wealth Strategies, March 2019

THE MONTH IN BRIEF

You could say that Wall Street breathed a collective sigh of relief in February. Investors were encouraged by new developments in U.S.-China trade negotiations and by the minutes from the Federal Reserve's most recent policy meeting. On Main Street, consumer confidence improved, while consumer spending kept pace. Home sales declined once more, but so did mortgage rates. Optimism about the potential of the markets seemed to outweigh pessimism about possible economic deceleration. The S&P 500 gained 2.97% for the month.[1]

DOMESTIC ECONOMIC HEALTH

All month, investors were focused on the possible impact that higher taxes on a wide range of Chinese imports might have on the economy. Those tariffs were scheduled to take effect at the start of March. Fortunately, hints emerged that the U.S. and China were making progress toward a deal to postpone their enforcement. As the month went on, discussions between trade negotiators picked up, and President Trump saw "substantial progress" being made. On February 24, he said that he would push back the March 1 deadline for the implementation of the new tariffs, without mentioning a new cutoff date. On February 28, U.S. trade officials announced that the deadline was suspended "until further notice."[2,3]

The transcript from the January Federal Reserve policy meeting arrived at mid-month, with the hint that interest rate hikes might be paused. Fed policymakers felt that leaving the benchmark interest rate in its current range (2.25%-2.5%) "posed few risks at this point," but left a door open to resuming the cycle of tightening if the economy gathered more steam. Additionally, "almost all" participants on the Federal Open Market Committee favored ending the central bank's long-running reduction of its huge securities portfolio before 2020.[4]

A great jobs report arrived in February. During January, employers added 304,000 net new jobs. The unemployment rate did tick up to 4.0%; the U-6 jobless rate, which also counts the underemployed, interestingly rose 0.5% to 8.1%. Wages increased 3.2% during the 12 months ending in January.[5]

Both of the key U.S. consumer confidence indices rose during the month. The Conference Board's gauge rebounded from a (revised) 121.7 January mark, all the way to 131.4, and the University of Michigan's consumer sentiment index went from a 91.2 final January level to a 93.8 final February reading.[5]

Was the economy at risk of cooling off? Some of the most-watched economic indicators seemed to suggest as much. Consumer spending, as an example, had declined by 0.5% in December – not surprising given the 1.2% December fall for retail sales. Inflation was tepid, also: the Consumer Price Index advanced only 1.6% during the 12 months ending in January; though, the pace of core inflation (minus food and energy prices) reached 2.2%.[5,6]

As the month ended, the Bureau of Economic Analysis released its initial estimate of fourth-quarter growth: 2.6%, down from 3.4% in Q3. (The economy grew 2.9% across 2018.) Industrial output retreated 0.6% in January, and manufacturing output, 0.9%. On the bright side, the Institute for Supply Management's Purchasing Manager Index, measuring the pace of the nation's factory activity, improved 2.3 points in January to 56.6. (ISM's service sector PMI went in the other direction, however, dipping 1.3 points to 56.7.)[5,7]

GLOBAL ECONOMIC HEALTH

The Brexit drama took yet another turn in late February. The March 29 deadline for the United Kingdom's planned departure from the European Union remained, but a March 12 vote was scheduled in Parliament, giving lawmakers a choice to accept or reject a revised version of the Brexit deal that Prime Minister Theresa May presented to them in January. If May's deal is spurned again, then Parliament will have the choice to vote for either a "limited" extension of the Brexit deadline (a postponement that the E.U. would have to approve), or a "hard" Brexit, with no deal in place (a move that many analysts fear would injure the U.K. economy for some time).[8]

Asian economies depend heavily on trade, and possible ripple effects of the U.S.-China trade disagreement were being felt last month. Chinese factory activity contracted for a third consecutive month in February. Hong Kong released data showing its GDP had shrunk 50% in the fourth quarter. South Korea, Japan, and Singapore all reported declines in exports in February. As to monetary policy, some dovish notes were being sounded. China's central bank made noise about easing interest rates, and Japan was considering an economic stimulus.[9,10]

WORLD MARKETS

All in all, February was a very good month. One equity benchmark improved more than 10% (the Shanghai Composite, up 13.25%), and seven others posted monthly gains of at least 3% (France's CAC 40, 7.20%; the pan-European FTSE Eurofirst 300, 5.28%; the United Kingdom's FTSE 100, 4.86%; Australia's All Ordinaries, 4.72%; Canada's TSX Composite, 4.03%; Hong Kong's Hang Seng, 3.83%; Taiwan's TSE 50, 3.45%.) MSCI's World index rose 2.83%. Mexico's Bolsa lost 1.84% in February, and that was the only noteworthy retreat.[11,12]

COMMODITIES MARKETS

What commodity surged 28.93% last month? If you are like most people, you probably buy some of it each week. Unleaded gasoline was February's peak performer. The other big February advances were made by heating oil (8.15%), platinum (6.41%), WTI crude oil (6.03%), and copper (5.68%). A barrel of WTI crude was worth $57.28 on the NYMEX at the February 28 close.[13]

The U.S. Dollar Index gained 0.55% for the month, improving to 96.11 by February 28. Both gold and silver went negative for the month: gold lost 0.39%; silver, 2.93%. Gold ended February at $1,314.70 on the COMEX; silver, $15.55. A few crops slumped badly in February: cotton fell 2.74%; corn, 3.86%; coffee, 9.99%; wheat, 12.34%.[13,14]

REAL ESTATE

The National Association of Realtors said that existing home sales had weakened for a third straight month in January, declining 1.2% to their slowest pace since November 2015. NAR chief economist Lawrence Yun commented that sales were "likely to have reached a cyclical low" in January, and one indicator pointed to possible improvement: NAR's pending home sales index, which measures housing contract activity, rose 4.6% in the opening month of the year.[14,15]

While residential resales decreased, so too did mortgage rates. At the end of February, they were notably lower from where they began the year. Back on January 3, Freddie Mac's Primary Mortgage Market Survey showed mean interest rates of 4.51% for a 30-year, fixed-rate loan, 3.99% for a 15-year, fixed-rate loan, and 3.98% for a 5/1-year, adjustable mortgage. On February 28, the average interest rate for the 30-year FRM was down at 4.35%. The 15-year FRM carried average interest of 3.77%; the 5/1-year ARM, average interest of 3.84%.[16]

TIP OF THE MONTH

If you have a parent or relative who has given you legal ***power of attorney*** *over their finances,* ***be transparent*** *about those finances with your siblings. This candor may prevent family squabbles.*

LOOKING BACK, LOOKING FORWARD

As you see directly below, all three major Wall Street indices recorded significant gains in February. For the record, the small-cap Russell 2000 climbed 5.08%. The February 28 settlements: Dow Industrials, 25,916.00; Nasdaq Composite, 7,532.53; S&P 500, 2,784.49; Russell 2000, 1,575.55. The oft-referenced barometer of stock market volatility, the CBOE VIX, lost 10.80% for the month, ending February at 14.78.[1]

This first-quarter rally has pleasantly surprised investors after Wall Street's gloomy end to 2018. Who knows how long this upturn may continue. Thankful investors are hoping that a conclusive resolution to the U.S.-China trade spat can provide stocks with further momentum. If the current business cycle did in fact peak in 2017, maybe the descent from the peak will be longer and more gradual than some analysts envisioned. As March arrives, the Street is cautiously optimistic that all this bullishness can continue a little longer. Whether it persists or falters, investors should not let the short-term climate of the markets and the economy distract them from an investment and saving approach intended to help them pursue their long-term goals.

QUOTE OF THE MONTH

"Always ***listen*** *to experts. They'll tell you what can't be done and why.* ***Then do it.****"*

ROBERT HEINLEIN

UPCOMING RELEASES

Here are the economic news items with the potential to affect the markets this month (and some of this information is arriving late as a result of this winter's partial federal government shutdown): February's ADP payrolls report (3/6), January housing starts (3/8), January retail sales (3/11), the latest Consumer Price Index (3/12), a new Producer Price Index (3/13), January new home sales (3/14), the preliminary March consumer sentiment index from the University of Michigan (3/16), a Federal Reserve policy statement and subsequent press conference with Fed chair Jerome Powell (3/20), February existing home sales (3/22), March's Conference Board consumer confidence index and February housing starts (3/26), February pending home sales and a new estimate of Q4 GDP (3/28), and the final March University of Michigan consumer sentiment number, February personal spending, and February new home sales (3/29).

Know someone who could use information like this?

Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

CITATIONS:

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