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MARKET COMMENTARY – MAY 1, 2019

Earnings Season. May Day, or Mayday.

On the one hand, *May Day* has been celebrated for hundreds of years, mostly in Germanic European countries. Explanations of its origins sometimes stretch back to Roman times or other pagan civilizations. But already by the 13th Century, maypoles were erected on the grounds of churches and incorporated into Christian rituals as well as secular culture. At its simplest, May Day is a festival commemorating the return of that happy season of warmth after a string of bleak months. Events include the crowning of the May Queen, dancing, and decorating the maypole with ribbons or garland.

On the other hand, the concept of *mayday* is decidedly less joyous than its capitalized cousin, especially when uttered three times. In 1923 a radio operator working at Croydon Airport in London was tasked with coming up with a single word that would indicate distress and was easily understood over garbled transmissions. Since almost all the traffic at Croydon was to and from Le Bourget in France, he suggested mayday, which is a phonetic version of m'aidez, a French phrase that means, "help me."

We are now in the back half of earnings season. It is fair for investors to wonder, which term should prevail, *May Day*, or *mayday*?

Coming into this reporting season, earnings were expected to fall 4% year-over-year. With available data, it looks like earnings will come in much better than that, down only slightly from last year. <u>And this is actually a very good thing</u>. The first quarter of 2018 produced high, and likely unsustainable, profit margins as companies adjusted to the new tax cut. Profit margins were also strong in 1Q '19, just not in the stratospheric levels from twelve months prior.

While earnings are nearly identical to this time last year, revenues are up over 5%. That means the economy has proven strong enough to propel higher and higher sales of items ranging from capital goods to consumables. All of these positive results come with very little inflation.

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The broader economy, too, is reporting solid results. GDP growth, which measures consumers and government as well as companies, rose 3.2% in the first quarter according to the latest estimate. Interest rates seem to have peaked. And while we do not know if they will abruptly make an about face and tumble, they have at least stabilized.

To cut to the chase, then, it is likely more appropriate to host a May Day celebration than to shriek mayday. Over three-fourths of companies that have reported their results thus far have beaten earnings expectations. Well over half of companies have bested topline forecasts. And stocks remain fairly (not over-, not under-) valued. The forward 12-month PE ratio on the S&P 500 is 16.8, above recent averages, but in line with long term history.

What about going forward? Most companies have affirmed their prior guidance for the remainder of 2019. A small minority have issued negative warnings for the rest of the year. A small number have issued positive guidance. Absent external shocks, we expect prices to trade along with earnings and their expectations. Prices may ratchet higher if we get an unexpected rate cut.

We've had a great run in stocks. What do I do if I haven't fully taken advantage of it? This is another great question. The best answer comes when we know your entire situation, your needs for money and risk tolerance. But generally speaking, we expect the economic expansion to continue a while longer and are not opposed to investors adding money to equities as long as they have no real need to spend it in the next five years.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

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