

In this month's recap: the Federal Reserve sees no rate hikes in 2019, investors watch Treasury yields with interest, hiring suddenly weakens, home sales pick up, and the price of oil tops \$60.

Monthly Economic Update

Presented by Pat Baxter, Investment Advisor Representative, April 2019

THE MONTH IN BRIEF

The Federal Reserve altered its outlook on interest rates in March, and the stock and bond markets certainly took notice. Both the Fed and the European Central Bank communicated that they saw economic growth moderating. Even so, the S&P 500 managed to advance 1.79% for the month. Trade talks continued between the U.S. and China, but without much in the way of real developments. New reports revealed a sudden slowdown in hiring and only mild inflation. Existing home sales accelerated, crude oil gained value, and the Brexit saga took yet another turn.¹

DOMESTIC ECONOMIC HEALTH

Without a doubt, the major story of the month was the Federal Reserve's newly dovish stance on monetary policy. The central bank had forecast two quarter-point rate hikes for 2019 in late 2018. On March 20, it held rates steady while projecting only one quarter-point hike through 2021. In announcing this dramatic pivot, the Fed also lowered its estimate of 2019 U.S. economic expansion to 2.1% from the prior 2.3%. Talking to the media after the release of the March 20 policy statement, Fed Chairman Jerome Powell remarked that the "growth of economic activity has slowed," adding that Fed policymakers saw "some weakening" in the economy, but no signs of a recession.²

More than a few investors interpreted the Fed's revised outlook as a commentary on the near future. Demand for longer-term Treasury bonds increased, sending their prices higher and their yields lower (bond yields fall when bond prices rise and vice versa). On March 22, the yield on the 2-year Treasury exceeded the yield on the 10-year Treasury. Analysts call this an "inverted yield curve," and when it happens, the financial media is quick to point out that it could signal a

weaker economy ahead. This is open to debate, but rising demand for longer-term Treasuries does imply less appetite for risk in the financial markets.³

By March 26, the CMEGroup's FedWatch Tool – a gauge of market expectations about interest rate changes – gave the Fed a 71.7% chance of making an interest rate cut by the end of the year, with a 57.7% chance of a cut by September.⁴

The latest employment report from the Department of Labor showed payrolls expanding by just 20,000 net new hires in February. Even so, the main jobless rate fell 0.2% to 3.8%; the U-6 rate, including the underemployed, dropped 0.8% to 7.3%. (Both reductions could reflect furloughed federal workers returning to their jobs.) Also worth noting: hourly wages were up a nice 3.4% year-over-year.⁵

Inflation remained muted. The latest Consumer Price Index (February) showed just a 1.5% annualized gain, hardly the kind of pressure that begs action from policymakers.⁵

On Main Street, there was a slip in consumer confidence. The Conference Board's monthly index came in at 124.1 for March – a good reading, but well below the 131.4 mark of a month earlier. The latest available data on consumer spending showed a mere 0.1% gain in January.⁶

A much-watched index tracking the U.S. manufacturing sector showed solid growth, but a slightly slower pace of business activity. The Institute for Supply Management's purchasing manager index for the factory sector fell from 56.6 in January to 54.2 in February.⁵

Last month, the federal government downgraded its estimate of fourth-quarter gross domestic product. The final estimate was 2.2%, revised from 2.6%.⁶

GLOBAL ECONOMIC HEALTH

As March ended, a positive note was sounded in the trade negotiations between the U.S. and China. Secretary of the Treasury Steven Mnuchin tweeted that “constructive” discussions were taking place, to be continued in April in Washington, D.C.⁷

The Brexit did not occur on March 29. Instead, the United Kingdom's Parliament rejected Prime Minister Theresa May's (revised) Brexit plan on that day, for a third time. The European Union had earlier granted the United Kingdom a short-term extension of the Brexit deadline; the revised deadline, April 12, now looms large. If Parliament cannot agree on a Brexit deal at the start of this month, May will be left two choices. She can try to carry out a “hard” Brexit by April 12, a move that has little apparent support in Parliament. Alternately, she can ask the E.U. to extend the Brexit deadline again, which is hardly a given.⁸

On the continent, the European Central Bank decided to bring back some of the stimulus measures it had announced an end to in 2018. In its latest policy announcement, the ECB said that it would hold off on raising interest rates until at least 2020. (It last raised interest rates at the start of this decade.) Elsewhere, the Organization for Economic Cooperation and Development (OECD) forecast 2019 growth of less than 1% for the economies of Germany, Japan, and the United Kingdom, and growth of only 1% for the 19-country Eurozone.⁹

WORLD MARKETS

Last month, some of the best-performing foreign indices were in the emerging markets. China's Shanghai Composite advanced 5.09% in March, and India's twin benchmarks outgained it: the Nifty 50 soared 7.70%; the Sensex, 7.82%. Interestingly, the United Kingdom's FTSE 100 rose 2.89%; France's CAC 40 added 2.10%. Taiwan's TWSE 50 improved 2.19%. Two other indices were basically flat for the month: the German DAX eked out a 0.09% advance; the Australian All Ordinaries, a 0.14% gain. MSCI's Emerging Markets and World indexes respectively improved 0.68% and 1.05%. Three indices took notable losses: South Korea's Kospi lost 2.49%, Malaysia's KLSE Composite fell 3.75%, and Argentina's Merval retreated 4.62%.^{10,11}

COMMODITIES MARKETS

Unleaded gasoline had another great month, rising 14.26%. That said, all eyes were on oil. WTI crude regained the \$60 level, advancing another 5.12% in March and wrapping up the month at a price of \$60.18 on the New York Mercantile Exchange. In contrast, natural gas lost 4.77% in March; heating oil, 2.91%.¹²

The U.S. Dollar Index improved 1.09% last month. All four major metals retreated: gold took a 1.65% loss, silver fell 2.89%, platinum retreated 2.77%, and copper ceded 0.56%. At the closing bell on March 29, an ounce of gold was worth \$1,290.80 on the Commodity Exchange of the NYMEX. The March gains among major crops: cotton, 4.19%; cocoa, 2.14%; wheat, 1.44%. The March losses: coffee, 1.20%; corn, 1.31%; soybeans, 1.48%; sugar, 1.57%.^{12,13}

REAL ESTATE

In a burst of good news for the housing market, existing home sales greatly increased. The National Association of Realtors announced a February gain of 11.8%. It was the best month for residential resales in more than three years. NAR chief economist Lawrence Yun credited a "powerful combination of lower mortgage rates, more inventory, rising income, and higher consumer confidence." Even so, sales were still down 1.8% year-over-year, and the NAR pending home sales index was 1.0% lower in February. The median sale price of a single-family residence was \$249,500 in the second month of 2019, up 3.6% from February 2018.^{6,14}

New home sales also improved in February. They were up 4.9% month-over-month, albeit 0.6% year-over-year.⁷

As the NAR noted, mortgage rates have declined of late. Freddie Mac’s Primary Mortgage Market Survey showed the average interest rate for the 30-year, fixed-rate mortgage at 4.35% on February 28; in the same survey, the 15-year FRM had a mean interest rate of 3.77%. By March 28, the 30-year FRM bore an average interest rate of just 4.06%, while a 15-year FRM had an average interest rate of 3.57%.¹⁵

TIP OF THE MONTH



*In view of possible **extended care** needs, you may want to look at a **hybrid life insurance policy** that can potentially give you a pool of money to pay those costs. Unused benefits may be paid to the policy’s beneficiaries after your death.*

LOOKING BACK, LOOKING FORWARD

All three big U.S. equity market benchmarks rose in March – to varying degrees, with the blue chips barely improving. The Nasdaq Composite settled at 7,729.32 on the last trading day of the month (March 29); the S&P 500, at 2,834.40; the Dow Jones Industrial Average, at 25,928.68. The Russell 2000 posted a one-month loss of 3.14%, declining to 1,539.78. The CBOE VIX, the index showing expectations of stock market volatility, ended March at 13.70, advancing 0.96%.^{1,16}

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2018
DJIA	+11.15	+0.05	-5.63
NASDAQ	+16.49	+2.61	-3.88
S&P 500	+13.07	+1.79	-6.24

BOND YIELD

3/29 RATE

1 MO AGO

1 YR AGO

10-YEAR TREASURY	2.41	2.73	2.74
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Sources: barchart.com, wsj.com, treasury.gov - 3/29/19^{1,16,17,18}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.
10-year Treasury yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

Currently, Wall Street's collective eye is focused not only on the upcoming earnings season, but also on domestic and global growth. Dovish notes sounded by the Fed and the ECB and declining bond yields are signaling reduced expectations of economic vitality. Perceptions of the market and the economy may be shifting as a consequence and impacting bullish sentiment. All of this may pose a significant challenge for the stock market this month, and earnings results may or may not have the power to alter such perceptions. This is a good time to remember that markets go through cycles, and over the long term, you will experience many of them as an investor. There will always be ups and downs; your investment approach takes them into account, plus your time horizon. Whether April turns out to be spectacular, disappointing, or somewhere in between, your long-run objectives should remain your focus.

QUOTE OF THE MONTH



*“He who **knows** that enough is enough will always **have** enough.”*

LAOZI

UPCOMING RELEASES

April's major scheduled economic news releases include: ADP's March private payrolls report and the Institute for Supply Management's March reading on business activity in the service sector (4/3), the latest jobs report from the Department of Labor (4/5), March consumer inflation (4/10), March wholesale inflation (4/11), the initial April consumer sentiment reading from the University of Michigan (4/12), March retail sales (4/16), March housing starts (4/17), the Conference Board's latest leading indicator index (4/18), March existing home sales (4/22), March new home sales (4/23), the latest monthly snapshot of hard goods

orders (4/25), the final April University of Michigan consumer sentiment index (4/26), March consumer spending (4/29), and a new Conference Board consumer confidence index and March pending home sales (4/30). The Federal Reserve makes its next announcement on interest rates on May 1.

THE MONTHLY RIDDLE



It is filled with garb, and the price is free; you can take whatever you like and return what you don't need. What is it?

LAST MONTH'S RIDDLE: What has four legs, bears weight without complaint, and never makes a peep when food is brought its way?

ANSWER: A table.

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