A Nice Recovery to Start the New Year After the Santa Claus Selloff

By Bob Deitrick
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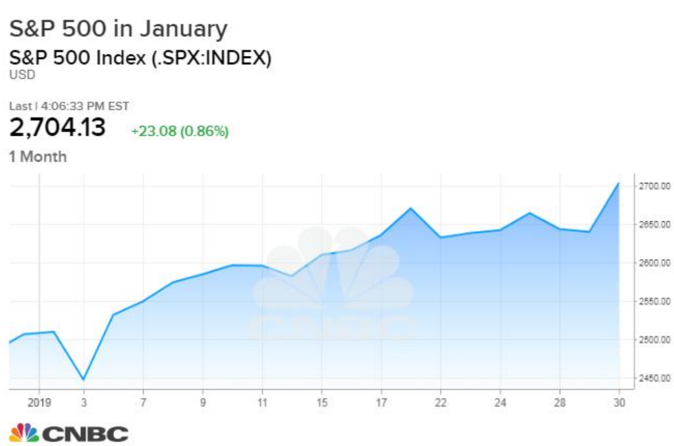
It is fair to say that the market in December was unpleasant, to say the very least. Having said that, we found a bottom to the correction cycle on Christmas Eve and stocks have risen since then. We closed out our best January in three decades last week as strong earnings and a more dovish Fed caused investors to rush into the market following the December sell-off. And now that the Pats have won the most boring Super Bowl of all-time, again, what does this mean for the markets? Nothing.

The big day last Thursday was driven by better-than-expected earnings from a range of companies, including Facebook and GE. On Thursday, the S&P 500 gained 0.9% to close at 2,704 and the NASDAQ outperformed rising to 7,281. On Friday, the Dow closed just above 25,000 again as well. We are only 7% from the all-time highs the S&P 500 hit back on September 20th - at 2,930.

Now that the books on January are closed, lets summarize:

- ***The S&P 500 climbed almost 8% last month, its best January performance since 1987, and its biggest monthly gain since October 2015.***
- ***The Dow rose 7.17 percent in January - its biggest January gain in 30 years. Not too shabby as one of our favorite clients in Cadiz, Ohio, Bill Spiker, might say.***

Shares of Facebook surged 10.8% last Thursday after the company's quarterly results topped expectations. GE shares jumped 11.65% on stronger-than-forecast revenue also. Other companies that reported solid earnings last week included UPS which rose 4.16% and Charter Communications which rose 14%.



Steven and I believe that the market is approaching fair value. January was a justified pop from the oversold levels of the 4th quarter. In December, the market ran away with a correction led by headlines which ruled the market for the entire month. Last month, the S&P 500 fell 9.18% and briefly

dipped into bear-market territory (on an intraday basis) on Christmas Eve. However, since Christmas Day, stocks have been rebounded nicely with the S&P 500 rising over 14%.

The question is: What will be the next catalyst to move this market forward?

We believe the answer lies with China. ***The market received a nice boost last Thursday after President Trump conveyed to reporters, he hoped to strike a deal by the end of February. Time will tell, but a deal with China may be the next catalyst for equities. We also learned last week that U.S. and Chinese officials are arranging a meeting between Trump and Xi Jinping for late-February which implies something's on the horizon. There is of course the risk that nothing may happen; however, there is tremendous political pressure on Trump and Xi Jinping to get this deal done… Let's hope they both find wisdom in the word compromise and that this was worth the wait and anguish of 2018.***

The rise on Thursday followed a rally Wednesday which was sparked by the Fed's latest monetary policy statement where the "Fed said it will be patient with respect to normalizing rates moving forward" – and this is precisely what the market wanted to hear. The market has had a nice rebound despite the government shutdown of last month. The 35-day federal shutdown cost the government and our economy in the billions of dollars. According to economists and policy analysts they indicate:

- ***We lost $23 to $24 billion in lost economic output, or 0.6 percent of projected annualized GDP growth, according to the Standard and Poor's and Moody's ratings agencies.***
- ***We lost $450,000 per day in revenue at our National Parks, according to the National Park Service.***
- ***We lost $2.4 billion in travel spending, based on an estimate of $152 million per day.***

Despite the drama of the past 60 days - we had a solid job report on Friday showing that the economy grew 304K new jobs. And now that the Central banks have blinked the future appears brighter for the market. We suspect there's little risk the Fed will turn hawkish, ending this cycle prematurely. So, are we out of the woods from the correction of last quarter? The answer is yes - hopefully. The VIX has come down to 15.74 as of today, February 4th, so we are close to the 15 mark which connotes greater market stability. However, there are some potential landmines we are watching closely for you:

- ***The trade/tariff deal with China has not been finalized but hopefully will be by the March 2nd deadline.***
- ***The Brexit ordeal for Great Britain is not something we are worried about. We survived our own version of Brexit post the Revolutionary War. Great Britain is barely in the top 10 of the major industrialized countries of the world so if they want to leave the EU, that is there prerogative.***
- ***The Mueller Report has yet to come out and that may be a problem for the markets, if it ever comes out. Having said that the longer Mueller waits - the less credence this report has in our view.***
- ***The testimony of Roger Stone and Michael Cohen could have a temporary impact on the market too.***

In summary, given this nice start to January 2019 looks good on paper. We are cautious, yet optimistic about 2019. Please keep in mind the 3rd year of a Presidential term has been the best year for the market going back 100 years. Let's hope sagacity prevails and a trade deal with China is concluded soon. If this happens and if earnings stay on track, we may have an enjoyable year to look forward to in 2019. Finally, Steven and I would like to wish a

Happy Valentine's Day to all of our PFP Moms!