

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished February at 25,916, up +3.67% for the month and +11.10% year-to-date. The S&P 500 closed February 28, at 2,784, up +2.97% for the month, and +11.08% so far for the year. The NASDAQ Composite gained +3.44% in February, up +13.52% for the year. Small company stocks as measured by the Russell 2000 ended February at 1,576, up +5.08% for the month and +16.83% year-to-date.

"All three major U.S. stock averages have rallied in 2019 — aided by a more patient Federal Reserve, thawing U.S. - China trade tensions and better-than-expected corporate earnings — after last year suffering their worst annual declines since the financial crisis." Jessica Menton, Feb. 28, 2019, "U.S. Stocks Close Lower, but Hold Onto Year-To-Date Gains," *The Wall Street Journal*.

GDP Growth

The initial estimate for the fourth quarter of 2018 GDP came in at a healthy 2.6% for the quarter, an increase of +3.1% from a year ago. Consumer spending, helped by low unemployment and rising wages, contributed to the strong growth. Better than expected business spending on things like software and infrastructure also contributed, a positive sign for productivity moving forward. Warning signs are flashing, however, with the effects of the partial government shutdown expected to affect growth in the first quarter of 2019 — and a global growth slowdown, particularly in China and Europe, likely to eventually affect producers in the U.S. A slowdown in the residential housing market has also been a negative contributor in the most recent reports. Most observers expect slower but still positive growth for the U.S. economy in 2019, with the outlook for 2020 less certain.

Corporate Earnings

According to FACTSET, with 96% of the S&P 500 reporting, the earnings growth rate for the fourth quarter of 2018 stands at 13.1%. This is the fifth straight quarter of double-digit earnings growth, but marks the first time quarterly growth was less than 20% since the fourth quarter of 2017. The full-year 2018 earnings growth stands at 20.0%, but is expected to fall to 4.1% in 2019. Some decrease in earnings was expected, as the impact of corporate tax reform falls off the comparison. Other headwinds, however, continue to persist with unclear resolutions. Tariffs, a global slowdown in demand, and rising wage and input costs all fall into this category. Earnings estimates for the first quarter of 2019 have decreased by -6.5% since the year began, and earnings are now expected to contract by -3.2% for the quarter. Weaker than expected earnings are likely to put downward pressure on equity markets as we move through 2019.

"The market isn't risk-free, however. Deltec's [Hugo] Rogers, for one, sees continued weakness in economic data from China and Europe, trade hopes baked into stocks, and very little earnings support for the stock market in the U.S., where the S&P 500 trades at 16.4 times earnings. 'We think from here there's little upside, so we would not chase equities,' he says." (Ben Levisohn, March 1, 2019, "The Trader," *Barron's*.)

Federal Reserve — Monetary Policy

Much of 2019's stock market rebound has been attributed to signaling by the Federal Reserve that they are willing to be more patient with raising interest rates than what was expected in late 2018. While the Fed official's median estimate in December was for two rate increases in 2019, many expect now that one rate hike or none at all is more probable. Risks remain, however, that signs of growing inflationary pressures or an overheating economy may force the Fed to raise rates more quickly. The monthly employment and inflation reports are likely to be closely watched for signs of sharp increases in wages and inflation. Surprise inflation indicators could lead to a sharply negative reaction from markets.

MARKET METRICS

| INDEX OR METRIC | CLOSE AS OF 12/31/2018 | CLOSE AS OF 01/31/2019 | CHANGE PREVIOUS MONTH END | 2019 YTD % CHANGE |
|------------------------------|---------------------------|---------------------------|---------------------------------|----------------------|
| Dow Jones Industrial Average | 24,999.67 | 25,916.00 | +916.33 | +11.10% |
| S&P 500 | 2,704.10 | 2,784.49 | +80.39 | +11.08% |
| NASDAQ Composite | 7,281.738 | 7,532.531 | +250.793 | +13.52% |
| RUSSELL 2000 | 1,499.42 | 1,575.55 | +76.13 | +16.83% |
| Fed Funds Rate | 2.25%- 2.50% | 2.25% - 2.50% | UNCHANGED | |
| 2-Year Treasury | 2.45% | 2.52% | +.07% | |
| 10-Year Treasury | 2.63% | 2.73% | +.10% | |
| Crude Oil \$ per Barrel | \$53.79 | \$57.22 | +\$3.43 | +26.01% |
| Gold \$ per Troy oz. | \$1,325.20 | \$1,316.10 | -\$9.10 | +2.72% |
| UK Pound in U.S. \$ | \$1.3155US = 1£ | \$1.3301US = 1£ | \$WEAKER | +4.44% |
| Euro in U.S. \$ | \$1.1475US= 1€ | \$1.1387US= 1€ | \$STRONGER | -0.39% |
| Canada \$ per U.S. \$ | \$1.3133 \$1.00 US | \$1.3170C \$1.00 US | \$STRONGER | -3.57% |
| Japan Yen per U.S. \$ | 108.83¥=\$1.00 US | 111.32¥=\$1.00 US | \$STRONGER | +1.46% |



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