## Market Currents

- A Calm Start to the Year. Global markets have started 2019 on firmer footing after losses suffered in late 2018. Investor optimism jumped to its highest level in three months, soothed by moderating market concerns around geopolitics and monetary policies. The S&P 500 gained 8% for the month, with generally healthy market breadth and good all-around participation. Further evidence of an improving risk appetite is the outperformance of mid and small cap stocks, as well as equities from the emerging markets.
- Policy Doves. The Federal Reserve is pivoting toward a more dovish stance for the year ahead. In his January 30 press conference, Fed Chair Jerome Powell noted the positive outlook on the economy, but highlighted the presence of cross-currents amid tighter financial conditions and slower growth abroad. A more patient, wait-and-see approach is advocated, to the delight of market participants.
- Government Shutdown Part Deux? The temporary budget deal to end the 35-day partial government shutdown expires on Feb 15. A security debate over funding for a border wall with Mexico remains the sticking point, and we appear to be no closer to reaching a resolution. Historically, government shutdowns tend to have minimal influence on the economy and the stock market. However, a prolonged battle will, without question, have material impact on business and consumer confidence.
- Easing Trade Tensions. Though far from resolved, the trade backdrop between U.S and China is improving. Rhetoric from the presidents of both nations points towards a more conciliatory tone. With the consequences of the trade war weighing on economies and corporate earnings around the globe, we believe there is strong motivation from both parties to seek a resolution.
- Earnings Season. With slightly over half of the Q4 earnings season behind us, reports have generally come in solid. Macro concerns particularly around trade uncertainty, slowing economic outlooks in Europe and China, and Brexit are acknowledged, but most corporate CEOs describe the backdrop as much better than the Oct Dec financial volatility would suggest.
- Outlook for 2019. The strong fourth quarter selloff began to abate in the closing days of last year. The market has staged a solid rebound since then, but it's premature

to say we are out from the woods. Investors will be monitoring economic indicators closely in 2019 for any signs of further economic deterioration. Tariffs and prospects of a government shutdown threaten to undermine economic growth across the globe, though we expect there will be a respectable resolution to both issues. Meanwhile, the labor market remains strong, wages are rising, and consumer confidence is high. Inflation remains muted, and market valuations are reasonable. Despite the near-term chop, we believe a thoughtful, long-term approach to risk assets will continue to be rewarded.

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