After The Close

Outside of today, the bulls have been in charge during January

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Growth fears front and center

Growth concerns sapped investor sentiment across the globe on Tuesday, driven in part by weaker GDP data out of China and lower growth forecasts from the IMF. China's growth slowed to +6.4% y/y in the fourth quarter, weakened by a trade war with the U.S. and cooling domestic demand. For all of 2018, China GDP grew by +6.6% y/y, which marked the slowest pace of growth since 1990. On a related note, the International Monetary Fund now sees global growth slowing to +3.5% in 2019, down from the +3.7% forecast in its October release. Adding to the mix of negative sentiment were reports that the U.S. has canceled scheduled trade meetings this week with China, due to the lack of progress on important issues such as intellectual property rights. The unusually large drop in December existing home sales data also did little to boost bullish sentiment after a long holiday weekend.

Major Domestic Equity Indices - Today

Benchmark	Index Level	Net Change	% Change
S&P 500 Index	2,633	-37.8	-1.4%
Dow Jones Industrial Average	24,404	-301.9	-1.2%
Russell 2000 Index	1,454	-27.6	-1.9%
NASDAQ Composite	7,020	-136.9	-1.9%

All data via FactSet as of approximately 4 PM ET

U.S. stocks are off to a strong start in 2019 and higher by nearly +12.0% from their December lows — even after today

So far, the longest ever U.S. government shutdown, decelerating earnings growth across U.S. companies, increased Brexit uncertainty, and lingering trade friction has had minimal effect on stock prices this year. Extremely oversold conditions across U.S. stocks in late December has given way to strong buying activity across S&P 500 sectors in January. Energy, Financials, Industrials, and Consumer Discretionary (basically some of the largest slices of the cyclical universe) are outpacing year-to-date gains in the S&P 500 Index.

As a result of the improved buying activity this month, far more stocks are trading above their 50-day moving average compared to December, helping the S&P 500 trace its best start to a year since 1987. At Friday's close, the Dow Jones Industrial Average made it four weeks in a row of gains, a first since last August. According *to Bespoke Investment Group*, the S&P 500 is off to its 6th strongest start to a year on record. However, strong January performance is a poor predictor of how the rest of the year could develop. Remember last year's strong January start? We all know how that story ended. Even after today's slide, the Russell 2000 Index is up nearly +8.0% in January, West Texas Intermediate (WTI) oil is higher by nearly +16.0%, and U.S. Treasury yields have risen from their December lows. As global equity prices have recovered this month, buying activity has generally strengthened into the close—outside of today. In our view, this is a positive sign for longer-term investors and a sea change compared to the intense selling pressure that would routinely mark the last hour of trading in December.

Since the December 24th low, investors have seen a V-shaped bounce across large-cap, mid-cap, and small-cap stocks, taking most major indices above their 50-day moving averages. Consequently, near-term buying activity could be a little stretched at this point and after most S&P 500 sectors now sit in a neutral state following very oversold conditions in December. Importantly, it is natural for stocks to retrace some of their strong gains, as they did today. From our perspective, global stocks still offer compelling valuations based on expected growth — even after downside IMF forecasts. Interestingly, the recent market rally has been led by stocks with the most aggressive valuations, highest trailing P/E ratios, and stocks which were punished most severely in the fourth quarter. This rhymes with early 2019 sector performance and indicates investors were too bearish on future growth at the end of the year, in our view. Investors have also been very willing to go back to stocks that worked in the past as sentiment conditions have improved over recent weeks and bulls challenge the idea that the 'buy-the-dip' strategy is dead.

Committee View

For now, we believe the bulls are still in charge after licking their wounds from a punishing fourth quarter. However, the verdict is still out if they can maintain their control deeper into the quarter. The next few weeks of earnings reports and developments on the trade front could likely play a large influence on where markets go from here. In our view, U.S./China trade tensions are the largest threat to our market and economic outlook this year. If trade tensions are resolved favorably and include a reduction in U.S. tariffs for structural reforms in China, global equities could continue to rally from current levels over time. If trade tensions linger, stock prices are likely to drift lower or trade sideways at best. Investors should keep tactical asset allocations close to strategic targets and ensure portfolios are not too heavily tilted towards risky or defensive positions until macro conditions clear.

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