ANB Financial Services

Market Commentary as of February 1, 2019

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Investors celebrated a month in which several indexes posted their best January performance in three decades. A strong labor market, low inflation, and a more "patient" Federal Reserve Board all sent encouraging messages to investors who were hungry for good news after last December's precipitous plunge. The Russell 2000 led the charge, closing the month more than 11% higher than its 2018 close, followed by a nearly 10% gain in the Nasdaq, while the S&P 500, Dow, and Global Dow all topped 7%.

By the close of trading on January 31, the price of crude oil (WTI) was $53.95 per barrel, up from the December 31st price of $45.81 per barrel. The national average retail regular gasoline price was $2.256 per gallon on January 28th, down slightly from the December 31st selling price of $2.266 and $0.351 lower than a year ago. The price of gold rose by the end of January, reaching $1,325.70 by close of business on the 31st, up from $1,284.70 at the end of December.

Market/Index	2018 Close	Prior Month	As of January 31st	Month Change*	YTD Change*
DJIA	23327.46	23327.46	24999.67	7.17%	7.17%
NASDAQ	6635.28	6635.28	7281.74	9.74%	9.74%
S & P 500	2506.85	2506.85	2704.10	7.87%	7.87%
Russell 2000	1348.56	1348.56	1499.42	11.19%	11.19%
Global Dow	2736.74	2736.74	2945.73	7.64%	7.64%
Federal Funds	2.25% - 2.50%	2.25% - 2.50%	2.25% - 2.50%	0 bps	0 bps
10-yr Treasury	2.68%	2.68%	2.63%	-5 bps	-5 bps

**Chart reflects price changes, not total return.*

Last Month's Economic News (due to the partial government shutdown, some reports were delayed)

- US employers added the most workers in 10 months as wage gains accelerated and labor-force participation jumped, reflecting a robust job market that nevertheless faces mounting risks in 2019. Nonfarm payrolls increased by 312,000 in December while average hourly earnings rose to 3.2% from a year earlier, more than projected and matching the fastest pace since 2009. While worker pay has risen very gradually during most of the economic expansion, companies have been competing more vigorously in recent months to attract and retain workers. Meanwhile, the jobless rate rose from a five-decade low to 3.9%, reflecting more people actively seeking work. While the unemployment rate increased to a five-month high, it may not be much of a concern because the participation rate rose to 63.1%, the highest since September 2017, from 62.9%. The figures brought the 2018 payrolls gain to 2.64 million, up from 2.19 million in 2017. Payroll figures in October and November were revised upward by 58,000 jobs.
- A gauge of US manufacturing plunged last month by the most since October 2008, a fresh sign of deceleration in the economy amid global strains across the sector. The Institute for Supply Management index dropped to a two-year low of 54.1, missing all estimates in a Bloomberg survey. All five main components declined, led by new orders falling the most in almost five years and the steepest slide for production since early 2012. Employment, delivery and inventory gauges fell. The 5.2 point drop from the prior month has been exceeded just twice this century, both times during recessions: in the financial crisis a decade ago and following the September 11, 2001, terror attack. Such weakness adds to signs that President Donald Trump's trade war and fading lift from fiscal stimulus are weighing on American producers. Previous reports showed five Federal Reserve indexes of regional manufacturing all slowed in December, the first time they've fallen in unison since May 2016. Gloomier data may give Fed policy makers, who have already said they intend to slow the pace of interest-rate hikes, more reason to pause.
- Expansion in US service industries slowed by more than expected in December to end the year on a weaker note as measures of business and employment fell, though new orders remained strong. The Institute for Supply Management's non-manufacturing index declined to 57.6, the lowest since July and below the median estimate of economists for 58.5. The drop was led by the biggest decline in more than a decade for a measure of supplier-delivery times, as well as a decrease in the gauge of business activity. New orders rose to a six-month high. There was little indication in the data of the trade war with China weighing on business: Export orders accelerated, while a measure of imports eased only slightly. Also, a gauge of prices fell to the lowest in more than a year, possibly reflecting a tumble in oil and fuel costs. The employment gauge dropped for a third month while remaining at an elevated level. The December jobs data from the Labor Department showed private service providers added the most workers in more than a year.

- A key measure of US inflation was little changed in December while falling energy prices dragged down the broader gauge, giving the Federal Reserve little urgency to raise interest rates soon as it signals a more cautious approach in 2019. Excluding food and energy, the so-called core consumer price index rose 2.2% from a year earlier for a second month and increased 0.2% from November. The broader CPI cooled to a 1.9% annual gain and was down 0.1% from the prior month as energy costs fell the most in almost three years.
- The Bloomberg Consumer Comfort Index's monthly expectations gauge fell for a third month to 44.5 in January as more respondents said the US economy is getting worse. Meanwhile the weekly comfort measure declined to a four-month low of 58.1 as sentiment on the buying climate fell to its lowest since November. The faltering sentiment reflects a dimmer economic outlook among Americans amid the longest US government shutdown on record. The monthly gauge also fell sharply during the last lengthy shutdown in October 2013, when the index dropped the most since the last recession. It did recover the following month with the government open again.

International Markets

- Factory conditions across some of Asia's most export-oriented economies slumped in December, hit by the US-China trade war and a fading technology boom. In China, the IHS Markit Purchasing Managers' Index (PMI) fell to 49.7 from 50.2, its lowest reading since May 2017. That confirms a trend seen in the official PMI, which showed a drop to 49.4 in December, the weakest since early 2016. A reading below 50 signals contraction. Taiwan's Nikkei and IHS Markit manufacturing purchasing managers' index fell to 47.7 in December from 48.4 in November, and down from 56.6 a year earlier. That's partly due to a fall in demand for machinery and electronic goods, along with information and communications equipment, amid slowing orders for new smartphones and the simmering trade war. South Korea's PMI remained in contractionary territory for the second consecutive month even as the overall reading nudged higher. The manufacturing nation, a bellwether for global trade, saw exports fall in December.
- The euro-area economy is on a weak footing as it faces perilous uncertainties in 2019, from home-grown political difficulties to global stock-market turmoil and trade wars. The first significant batch of data released at the start of the year showed inflation was lower than expected in December and confirmed earlier reports that growth in manufacturing and services eased to the weakest since 2014. The euro-area economy stumbled at the end of 2018 as violent protests in France depressed output and consumption, political instability continued to rock Italy and Germany's car industry struggled to rebound from changes in regulation in the fall. IHS Markit's PMI for factories and services stood at 511.1 in December, down 7 points over the course of last year. While the reading suggests the economy grew about 0.3 percent last quarter, the momentum was only half that pace last month. Despite indications of slower growth, German unemployment figures provided some reassurance with joblessness decreasing by a seasonally adjusted 14,000 in December to 2.26 million and the unemployment rate remaining at a record low 5%.
- China's central bank cut the amount of cash lenders are required to hold as reserves by 1 percentage point in an effort to support a weakening economy. The reserve cut will be implemented in two steps, 50 basis points each on January 15th and January 25th. The decision is particularly intended to promote lending to private companies and increase liquidity around the Chinese New Year. According to the PBOC's statement, the cut itself will release a total of 1.5 trillion yuan to the banking system.
- Euro-area confidence extended its worst losing streak in a decade and Germany's government added to the pain by slashing its forecast for the region's largest economy. With countries across the 19-nation currency zone facing a range of domestic risks and trade uncertainties, sentiment tumbled to the lowest in more than two years. Germany predicted its economy will only grow 1% in 2019, the least in six years. In its outlook, the government in Berlin downgraded its 2019 prediction to 1% from 1.8%, citing in part the deteriorating global trading environment. Investors have been adding to bets in recent weeks that the weak economic data will keep interest rates lower for longer.

Eye on the Year Ahead

With the federal government now back at full staff (at least until the next deadline), investors look forward to receiving additional data as it becomes available, offering a more comprehensive view of the nation's economy. Ears will also be carefully attuned to news of any progress in the US-China trade talks.