Weekly Market Review

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The Week Ending November 17, 2018

Third quarter earnings season is just about wrapped up with 95% of S&P 500 companies reporting with tremendous numbers. Compared to the third quarter of 2017, companies reported an average 33% higher earnings making it the third consecutive quarter of 20%+ growth. And for the third quarter in a row, the stock market doesn't seem to care. Since October 1st, which includes the strong earnings release season, the S&P 500 is down almost 6%. It is as if the market expected "big" earnings this year because of the corporate tax cuts and decided it wasn't going to get too excited no matter how significant those earnings increases were. The bigger question is whether these earnings increases will persist or are they a one-time windfall for Corporate America. Only time will tell.

Much more attention has been paid to the developments surrounding the U.S. renegotiating trade deals with many of our largest trading partners. Last week the market's mood improved a bit on the reports China is proactively making trade concessions ahead of the much-anticipated G-20 summit occurring at the end of November. On Friday, President Trump said that Chinese officials sent him a list of 142 steps they were willing to take for a trade deal which was "pretty complete." As it currently stands, the U.S. has threatened to impose tariffs on all Chinese imports and increase those tariffs from 10% to 25% on January 1, 2019. The hope is that Trump and Xi will have a positive meeting at the G-20 and agree to postpone the new tariffs and keep the discussion going.

While the major U.S. stock indices remain in positive territory year-to-date, both foreign developed and emerging market equities are down 9% and down 13% respectively. A strong U.S. Dollar, trade conflicts, Brexit uncertainty, and slowing global economic growth have all been detractors this year. Also down on the year are the major bond indices, including the Bloomberg Barclays US Aggregate Bond index which is down 2%, and the Citi World Government Bond Index which is down 4%. Despite the volatility with now two 10% corrections for 2018, U.S. equities have been the bright spot with the S&P 500 up 4% on the year.

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