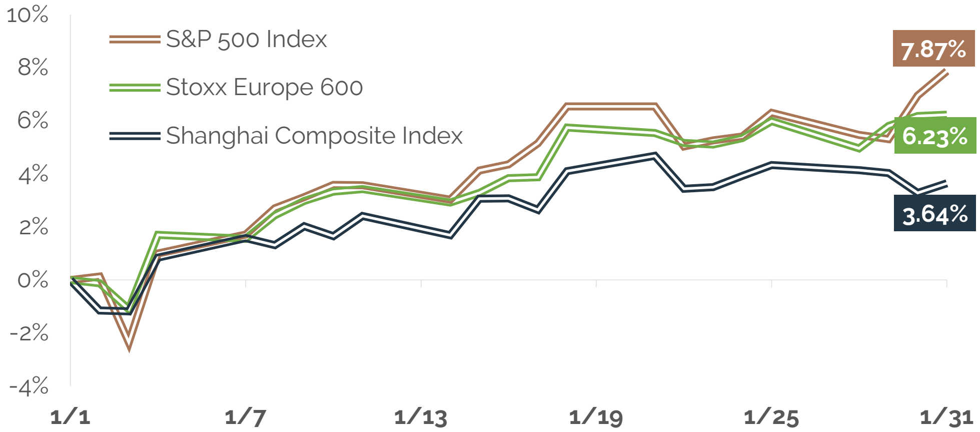

Key Economic Data	
Indicator	**Data Point**
Inflation	1.90%
Unemployment Rate	4.00%
1 Yr. Treasury	2.56%
2 Yr. Treasury	2.52%
10 Yr. Treasury	2.70%
WTI Crude	55.26

Themes Covered:

- U.S. Stocks Rally
- Impact of the Government Shutdown
- Trade War & The Chinese Slowdown
- U.S. Macro News
- Oil Rally
- Europe: Italian Recession & Brexit

U.S. Stocks Rally:

After the turbulent month of December, the U.S. stock market started off 2019 with the best January since 1989. The technology heavy NASDAQ Index experienced its strongest January since 2001, rising 9.74%. While January ended on a high note, looming macro-economic headwinds related to the trade war, China's slowdown, and Brexit have all put a dent in traders' outlook going forward. Investors seemed to lower their appetite for companies with large exposure to international markets, instead favoring U.S. based small-caps, which tend to produce most of their revenue domestically. Despite the broad-based rally in equities, earnings reports from large-cap companies signaled reduced growth and profitability outlook for 2019 due to global concerns. Case-in-point: 3M, Caterpillar, and Apple lowered expectations. Equity funds didn't see any significant inflows in January, while fixed-income, mainly U.S. treasuries have experienced robust inflows.

U.S. Macro News:

The U.S. economy maintains strong footing. The January jobs report was stronger than expected (304,000 new jobs vs. the estimated 165,000). The U.S. has seen increasing employment for 100 months in a row – the largest expansion in recent history. The U.S Manufacturing Index also exceeded forecasts, pointing to stronger factory activity in January. Perhaps the most significant development came from Federal Reserve Chairman, Jerome Powell, who decided to keep the target range for the federal funds rate between 2.25%-2.50%. In his comments, the Fed chairman identified risks from a slowdown in Europe and China, the trade war, Brexit, and the temporary government shutdown as reasons for the pause in interest rate hikes. Most of the concerns are related to international markets, hence the outperformance of domestic U.S companies over multinational businesses.

Impact of the Government Shutdown:

The government shutdown between Dec. 22nd and January 25th marked the longest shutdown in U.S. history (35 days). Despite the turmoil and political uncertainty, government shutdowns don't seem to impact the stock market. During the previous 18 shutdowns, from 1976 to 2013, the S&P 500 median return was 0.0% (flat). The unemployment rate temporarily ticked up to 4%, due to the 800,000 government workers who were furloughed or forced to work without pay. The shutdown also delayed reporting on key economic indicators compiled by government agencies every month. The backlogged reports should be released in early February, which the market will need to consume, potentially creating higher volatility in equity markets.

Oil Rally:

The U.S. benchmark crude (WTI) increased over 20% in January to reach $55.26 per barrel, short of the 2018 high of $76.9. The surplus in oil, caused by increased U.S. production, seems to be disappearing as OPEC begins their production cuts. Regardless, the cheaper oil prices boost consumer spending (Oxford Economics predicts roughly $360 savings per household in 2019). Unfortunately, slower oil and gas investment may create a drag on economic growth in 2019.

Trade War & China:

The trade war between the U.S. and China continues to grab headlines. So far, the Chinese government has agreed to increase purchases of US farm, energy, and industrial goods to offset the trade imbalance, which totaled $323 billion in 2018. The proposed plan would attempt to eliminate the trade imbalance by 2024. Washington is looking to sign a concrete deal by late February, but a date or location hasn't been set for a meeting between President Trump and President Xi. The trade war has started to negatively impact China, which is battling huge debt, overinvestment, and constraints on private businesses. China's GDP continued to slow in 4Q 2018, the manufacturing sector contracted, and retail sales growth slowed in January. Economic data coming out of China might not seem encouraging, but the Chinese stock market still recovered in January, on expectations the government will stimulate the economy. The Chinese slowdown could ripple through Asian, European, and American markets as globally inter-twined companies rely on demand from Chinese consumers for their goods and services.

Europe: Italian Recession & Brexit:

The European economy continues to face tepid growth with the euro-area economy expanding by a meager 0.2% in 4Q 2018. The Italian economy entered a technical recession as the country's GDP contracted by 0.2% in Q4 2018. This technical recession might be short-lived as the European Union and Italy reached an agreement on budgetary issues. Germany almost entered a recession as Q4 GDP growth came in at 0.1%, but growth is expected to accelerate the rest of 2019.

Brexit continues to be in the spotlight. British Prime Minister Theresa May was handed a victory by Parliament on January 29th, which will allow her to renegotiate a deal with the EU. May has until March 29th to broker an agreement between the EU and the UK. Given the current state of negotiations, a deadline extension seems more likely to a "no-deal-Brexit" which would have material negative impact on the rest of the world. Uncertainty has already resulted in British companies stockpiling goods in January at a rate not seen since the early 1990s. 30% of British firms are either considering, or actively planning on, moving operations out of the U.K. In most recent news, Nissan announced that it would break contract with the UK to build its new SUV in the country.
