


**Key Economic Data**

Indicator	Data Point
Inflation	1.60%
Unemployment Rate	4.00%
1 Yr. Treasury	2.55%
2 Yr. Treasury	2.55%
10 Yr. Treasury	2.76%
WTI Crude	57.43

**U.S. Stocks:**

The stock market continued to rally in February with both the S&P 500 and Nasdaq Composite gaining 3.2%, and 3.4%, respectively. February's gains can be attributed to the Fed pausing rate hikes, the possibilities of a trade deal between the U.S and China, and macro-economic data that signaled continued strength in the U.S. economy. Rising oil prices contributed to particularly strong performance among energy companies, while the easing trade war worries boosted technology and industrial stocks. Analysts lowered earnings-per-share estimates for 2019, dropping Q1 estimates as much as 4.1% according to FactSet. This is not surprising given the strong earnings growth in 2018 due to robust economic growth and the Tax Cuts and Jobs Act. In company specific news: BB&T announced plans to buy SunTrust in the largest bank deal since the financial crisis (\$28bn), a deal that would create the 6<sup>th</sup> largest retail bank. AT&T defended its \$85 billion merger with Time Warner against the Justice Department. Ride-hailing apps Lyft and Uber are on track to IPO in March, with the former going public as early as March 18<sup>th</sup>. The Kraft Heinz Company cratered as much as 30% in February due to weak earnings, an SEC investigation, and a \$15.4 billion accounting charge.

**U.S. Macro News:**

Multiple U.S. macro-economic indicators surprised to the upside in February such as; Q4 2018 GDP (2.6% vs. 2.2%), the ISM Manufacturing Index (56.6% vs. 54.3%), job creation (304,000 vs. 154,000), and consumer confidence (121.7 vs. 131.4). In the February FOMC minutes Federal Reserve Chairman Jerome Powell remained upbeat about domestic growth prospects for the medium term. He continued to stress the risks from deteriorating growth in China and Europe. The Fed's target rate remained in the range of 2.25-2.50 and based on the CME Futures the market doesn't expect another rate hike in 2019. On the negative side, December retail sales declined by 1.2%, marking the largest monthly drop since September 2009. Also, factory orders declined 0.6% in November. Overall the U.S. economy continued to perform well in an otherwise weak global environment. This imbalance between the U.S. and the rest of the world brings into question how much longer the U.S. can outperform.

**Oil:**

The U.S. benchmark crude (WTI) continued to increase in February, reaching \$57.43 per barrel. Despite steady U.S. output, large cuts by OPEC contributed to the oil price recovery. Saudi Arabia alone cut production by 1 million barrels per day (a 10% reduction in the country's output). Fears linger that oil demand will decrease in coming years especially in Europe and China as both economies face economic slowdowns. According to the Standard Chartered, in OECD Europe oil demand plunged by a staggering 755,000 barrels per day in December. On the contrary, the International Energy Agency still expects consumption to increase each quarter this year from a year earlier, given ongoing oil sanctions on Venezuela and Iran.

## Europe:

The Stoxx 600 gained 3.64% in February. European stocks are cheap, with the Stoxx 600 trading at 13.5x forward 12-month earnings vs. the S&P500 trading at 16.4x. Still, rising share prices haven't drawn new money into equity funds. For the past 6 weeks mutual-and exchange-traded EU funds have seen net outflows. The euro-area economy continued to struggle with weakening growth and country specific shocks. Overall consumer sentiment is stabilizing, but industrial confidence is still weak. The Manufacturing confidence index was -0.4 vs the estimated 0.1. Italy's consumer and economic confidence continued to deteriorate, but at least Italian banks rallied after credit rating agency Fitch affirmed the nation's BBB rating. On February 20<sup>th</sup>, President Trump indicated that he could impose tariffs on autos from the EU, which would predominantly impact the German economy. Brexit continues to create uncertainty as Prime Minister Theresa May promised a vote on delaying the U.K.'s departure from the EU.

## China:

China's Shanghai Composite Index increased 12.33% in February. Retail investors seem to be using leverage to boost their long positions in Chinese stocks in anticipation of a trade deal with the U.S. The rally seems highly speculative as economic indicators continue to show deteriorating fundamentals. China lowered its GDP growth target to 6.0 – 6.5% for the year from 6.5%. Manufacturing PMI saw a decrease to 49.2 from 49.5. The imports sub-sector came in at 44.8, down from 47.1 in January. The month of February saw Korean overseas sales decline by 11.1%. This marked the sharpest decline since April 2016. The Korean overseas sales number is a leading indicator that traders use as a proxy for Chinese and Asian trade activity strength. The People's Bank of China started to ease financial conditions to boost the economy and the stock market. It steadily decreased the Required Reserve Ratio for banks. This move has injected significant liquidity into the economy. The country also announced corporate tax cuts of 2 trillion yuan or \$298.31 billion. These tax cuts will draw funds away from infrastructure projects, which then will need to be financed with more special purpose bonds. These special purpose bonds are not reported in official government reports, yet they total \$1.1 trillion or 7.4% of GDP. HSBC estimates that these off-the-book bonds would increase Beijing's officially reported 2.8% budget deficit to around 8%.

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The S&P 500 is a market capitalization weighted index of 500 leading U.S. companies and one of the most common benchmarks for the broader U.S. equity markets.

West Texas Intermediate (WTI) crude oil is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.

The Consumer Price Index is used as a measure of Inflation. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas. Average price data for select utility, automotive fuel, and food items are also available.

The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The Nasdaq Stock Market. Launched in 1971, the NASDAQ Composite Index is a broad based Index. Today, the Index includes over 3,000 securities, more than most other stock market indices. The NASDAQ Composite is calculated under a market capitalization weighted methodology index. To be eligible for inclusion in the Composite the security's U.S. listing must be exclusively on the Nasdaq Stock Market (unless the security was dually listed on another U.S. market prior to January 1, 2004 and has continuously maintained such listing), and have a security type of either: American Depositary Receipts (ADRs); Common Stock; Limited Partnership Interests; Ordinary Shares; Real Estate Investment Trusts (REITs); Shares of Beneficial Interest (SBIs); Tracking Stocks. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities. If at any time a component security no longer meets the above eligibility criteria, the security is removed from the Composite Index.

The Stoxx Europe 600 is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The Shanghai Composite Index is a market capitalization weighted index made up of all the A-share and B-shares that trade on the Shanghai Stock Exchange. If at any time a component security no longer meets the above eligibility criteria, the security is removed from the Composite Index.

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