1919 INVESTMENT COUNSEL
Complexity to Clarity
100 YEARS

Weekly Market Insights

January 28, 2019

The Shutdown Ends (?), Leadership Chaos Everywhere and Growth in Question!

Equity markets, after a difficult start, ended the week almost unchanged. The DJIA closed +0.12, the S&P 500 -0.22 and NASDAQ +0.11. Perhaps not inspiring, but we will take it.

The Administration and Congress came to a temporary truce concerning the government shutdown. In our title, we put a question mark after the shutdown remark, because it really didn't end. As with many difficult problems, it was pushed forward to be solved in the future. Certainly, this is a positive for the country and particularly those workers who were furloughed without pay. But, clearly this is not the end. What has happened here is a manifestation of what is going on with governments around the globe. Just turn on the news and viewers will see and hear the fiasco in parliament concerning BREXIT, perhaps the most important moment in English/Euro relations in decades. In the midst of the European Parliament trying to solve that problem, Italy and France, two of the largest economies in the European Union, are in battle with each other over E.U. rules. Which brings us back to the United States, where we would be very fortunate if the shutdown were the only issue that was in crisis mode. It seems as if there is a general governmental paralysis. Winston Churchill, in his familiar pithy fashion, described the situation perfectly in 1936.

"So they [the government] go on in strange paradox, decided only to be undecided, resolved to be irresolute, adamant for drift, solid for fluidity, all-powerful to be impotent." Clearly there is nothing new under the sun!

Lately much has been written concerning future global economic growth. The National Association for Business Economics quarterly Business Conditions Survey, was released this morning[1] and it is well worth reviewing the highlights. The big question is: do the respondents expect a recession within the next 12 months? The answer is about two thirds do not. This is good news, of course. That has come down from last quarter, but it is clearly a positive. As you will read, the survey is positive, but there are plenty of reasons to be cautious. There was a slowdown in sales for the last quarter of 2018; 47% of panelists reported rising sales, as opposed to 61% for the third quarter 2018. Sales growth expectations fell sharply. They are down to 26% from 56% in the October report. Increases in profit margins became less widespread and prices were sticky.

Clearly, not awe-inspiring, but, there is good news.

Employment growth was positive and wages were up. Just as we have been reading, 53% report shortages of skilled labor. As most readers know, the consumer is between 65% and 70% of the U.S. economy. It is difficult to conceive of a recession near when consumers are doing quite well.

Two really interesting points: first, 84% report that one year after the passage of the 2017 Tax Cuts and Jobs Act, they have not changed hiring or investment plans and second, 77% said that trade concerns have not caused them to change investment, hiring or

[1] Fair disclosure, I am a voting member

Weekly Market Insights (cont'd)

pricing plans. The first must be a disappointment to the Administration, which claimed higher investment and more jobs was the justification for the tax cuts. The second is not altogether surprising. We have written quite a bit about the U.S. economy being much less dependent on global trade than other large economies, such as the E.U. and China.

All in all, not a thrilling report, but no reason for investors to panic.

- Michael Olin Clark
moclark@1919ic.com