



Optimism Spurs a Broad Rally

Weekly Update – February 25, 2019

The Week on Wall Street

Stocks rallied last week as optimism about a potential U.S.-China trade deal grew. The S&P 500 advanced 0.80% during the 4-day trading week to 2,792.67. The Nasdaq Composite improved 0.86% to 7,527.54, and the Dow Jones Industrial Average gained 0.64% to 26,031.81.

The renewed prospects for a trade pact were not the only development investors found appealing last week. There were indications that the Federal Reserve might be a bit less committed to its plans to raise interest rates further this year.^{i,ii}

A Look at the Fed Minutes

There were no surprises from the Federal Reserve's Board of Governors, who released the transcript from their January meeting on Tuesday. Investors pore over the meeting minutes looking for clues about the Fed's next move on short-term interest rates.

Fed policymakers appeared split on what's next. Some felt another rate hike was needed to help slow the strong economy, while others favored a "wait-and-see" approach.ⁱⁱⁱ

Home Sales Slump

In January, existing home sales were at their slowest pace since November 2015, and down 8.5% year-over-year. One factor: rising home values. Last month, the median single-family home sale price was \$247,500, almost \$7,000 higher than a year ago.

Mortgage rates have now fallen for three consecutive weeks, a development that may influence home buying decisions in coming months. Thursday, a Freddie Mac survey found the average interest rate on a 30-year, fixed-rate loan at just 4.35%.^{iv,v}

Final Thought

The Dow Jones and Nasdaq have posted gains for nine straight weeks and are now at levels unseen since early November. Concerns over volatility have decreased, but that does not mean it is off the table. Whatever the market does in the coming weeks and months, remember your investing strategy should be based on your goals, risk tolerance, and time horizon.²

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: Fed chair Jerome Powell begins two days of testimony on monetary policy in the Senate.



Wednesday: The National Association of Realtors releases its latest pending home sales index.

Thursday: The federal government provides its first estimate of fourth-quarter economic growth.

Source: Econoday / MarketWatch Calendar, February 22, 2019

The content is developed from sources believed to be providing accurate information. The forecasts or forward-looking statements are based on assumptions and may not materialize. The forecasts also are subject to revision. The release of data may be delayed without notice for a variety of reasons, including the shutdown of the government agency or change at the private institution that handles the material.

THE WEEK AHEAD: COMPANIES REPORTING EARNINGS

Tuesday: AutoZone (AZO), Home Depot (HD), Medpace (MEDP)

Wednesday: Apache (APA), Best Buy (BBY), Office Depot (ODP)

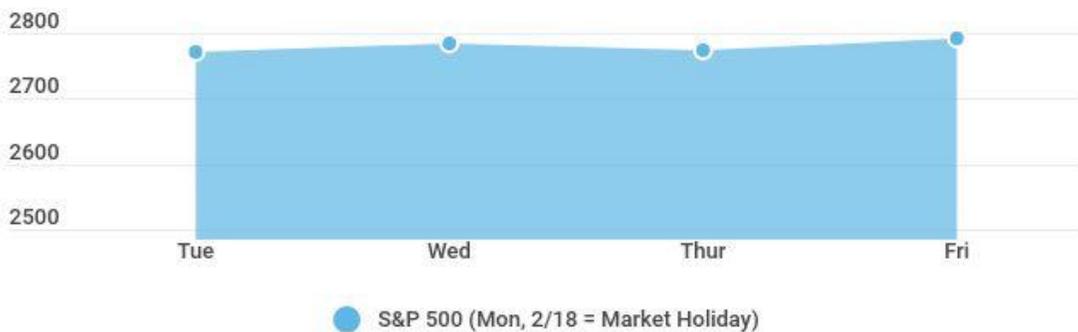
Thursday: Anheuser-Busch (BUD), Dell Technologies (DELL), Splunk (SPLK)

Source: Morningstar.com, February 22, 2019

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Market Index	Close	Week	Y-T-D
DJIA	26,031.81	+0.64%	+11.59%
NASDAQ	7,527.54	+0.86%	+13.45%
MSCI-EAFE	1,867.01	+1.46%	+8.55%
S&P 500	2,792.67	+0.80%	+11.40%



	Treasury	Close	Week	Y-T-D
	10-Year Note	2.65%	-0.01%	-0.04%

Sources: The Wall Street Journal, Feb. 22, 2019, Treasury.gov, Feb. 22, 2019

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. Weekly performance is measured from Monday's open of trading to Friday's close for the Dow Jones Industrial Average, Standard & Poor's 500 index, and NASDAQ Composite. Weekly performance is measured from Friday's open to Thursday's close for MSCI-EAFE. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points. International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.



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What is the Bank Secrecy Act?

In a partnership with the U.S. National Money Laundering Strategy, the IRS requires businesses to keep records and file reports that could be useful in the detection of money laundering, criminal enterprise, terrorism, or tax evasion. Here are some of the financial situations that could require reporting:

Report of Cash Payments Over \$10,000 Received in a Trade or Business

If your business receives more than \$10,000 in cash from one buyer (single transaction) or two or more related transactions, you'll need to file form 8300.

Report of Foreign Bank and Financial Accounts

If you live in the U.S. and have financial interest or signature authority over a foreign financial bank account, mutual fund, or trust that exceeds \$10,000 anytime during the calendar year.

Money Services Businesses

If you're in the business of cashing checks, currency exchange, or selling money orders, traveler's checks, or prepaid access products for an amount greater than \$1,000 per person, per day, in one or more transactions.

* This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax professional.

Tip adapted from IRS.gov^{vi}



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Diversification does not guarantee profit nor is it guaranteed to protect assets.

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The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia, and Southeast Asia.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

A 30-year fixed rate mortgage is a conventional home loan meeting the lending requirements of Fannie Mae and Freddie Mac, but it is not a mortgage guaranteed or insured by any government agency. Private mortgage insurance, or PMI, is required for any conventional loan with less than a 20% down payment.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

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ⁱ <https://quotes.wsj.com/index/SPX>

<https://quotes.wsj.com/index/COMP>

<https://quotes.wsj.com/index/DJIA>

ⁱⁱ <https://www.marketwatch.com/story/dow-reclaims-26000-and-ends-at-3-12-month-peak-as-stock-market-levitates-on-tariff-hope-2019-02-22>

ⁱⁱⁱ <https://www.bloomberg.com/news/articles/2019-02-20/fed-minutes-show-officials-unsure-on-need-for-rate-hikes-in-2019>

^{iv} <https://tradingeconomics.com/united-states/existing-home-sales>

^v <https://www.washingtonpost.com/business/2019/02/21/mortgage-rates-fall-third-week-row>

^{vi} <https://www.irs.gov/businesses/small-businesses-self-employed/bank-secrecy-act>

DENT

DIGEST

A BROAD LOOK AT IMPORTANT TRENDS THAT YOU MIGHT HAVE MISSED THIS WEEK

Weekly Dent Digest 2/22/2019

U.S.-Chinese Trade Deal Starts to Crystalize... U.S. and Chinese trade negotiators have been meeting and report progress. The president noted that the March 1 deadline for a deal before higher tariffs kick in isn't a special date.

What it means – Investors have closely watched the U.S.-China trade negotiations, hoping that the two sides will reach a deal before the deadline.

Leaked reports show progress on better access to Chinese markets and more Chinese purchases of U.S. goods. There's even news of progress on ending forced technology transfers from U.S. companies doing business in China to their domestic counterparts. State support – also known as subsidies – for domestic Chinese businesses could be a sticking point.

Optimism about a potential deal has driven the markets higher on several occasions this month, which means we've already priced in some of the good news. When we get a deal, expect the markets to jump, but the good times won't last. We still have all of the same economic woes facing the U.S., Europe, and even China.

Fed Minutes Confirm Flat Rates and the End of Shrinking Balance Sheet... Minutes from the latest Fed meeting show the governors agreed to keep rates flat for a while and they intend to develop a plan for winding down their bond-selling operation.

What it means – Unemployment? Low. Economic Growth? Slowing. Inflation? MIA. That about sums up the Fed’s analysis of where we are. The central bank has achieved its target of low unemployment, but there’s not much inflation to fight and GDP growth has fallen back to mediocre levels. What’s a bank to do? The voting members agreed that they don’t need to raise rates anytime soon, which left some investors wondering if the next move, later this year or next year, would be down.

At the same time, the Fed voted to end its bond-selling program, which allows bonds to mature without replacing them. The Fed has reduced its balance sheet from \$4.5 trillion in bonds to \$4 trillion, and wants to end the program sometime this year. This would mean that the Fed will go back to replacing all bonds as they mature, which adds a big buyer with gobs of cash and no price sensitivity to the market. That explains why the bond markets like the news out of the Fed and pushed interest rates lower and bond prices higher.

It’s worth noting that the Fed isn’t holding rates steady and ending its balance sheet activity because the economy is doing so well. The central bank is taking a wait-and-see approach because economic growth slowed dramatically from last summer.

Durable Goods Orders Up 1.2% in December, Core Capital Goods Down 0.7%... The headline number came in just above expectations, but masked weakness in business spending, which missed the expected flat reading.

What it means – Aircraft orders jumped, which pulled the headline number higher, while orders for machinery, computers, and communications equipment all took a hit. Vehicle orders were up 2.1%. Overall, durable goods

orders were disappointing, and highlight slower economic activity at the end of 2018.

Existing Home Sales Down 1.2% in January... December sales were revised up a bit, from down 6.4% to down 4.0%.

What it means – At first blush, the December existing home sales of 4.99 million units annually were the first reading below five million since November 2015. That number was revised to five million on the dot, so now January's 4.94 million units becomes the first print below five million in more than three years. For the year, existing home sales dropped 8.5%. That's better than last month's 10.3% drop, but it's still not good.

The median sales price dropped 2.8%, but still remains 2.8% higher than last year. It's likely that prices will ease a bit more as we get into the main selling season. Inventory perked up a little to 3.9 months' worth of sales, but it remains quite low.

Illinois Considers Taxing 401(k), IRA, and Private Pension Payments...

The state needs to raise funds to pay for public pensions.

What it means – Illinois needs more of your money because politicians made huge promises to unions and can't pay for them. Notice that none of the burden falls on the politicians. Or the unions.

To make up the shortfall, they want to take more money from taxpayers, from their retirement plans no less, and put it toward public pensions. It's hard to tell if the proposal is intended to shore up the public pensions or reduce overcrowding, because it's certain to drive retirees out of the state. Maybe the Illinois government wants property prices to fall.

Venezuelan Interim President Guaido Leads Convoy to Border to Get Supplies and Face Down Maduro Forces... Guaido, accompanied by up to 80 lawmakers, is traveling to the border with Colombia, where tons of humanitarian aid are blocked by Venezuelan army forces loyal to Venezuelan President Nicolas Maduro.

No one is sure what will happen when Guaido arrives. The army has blocked the path over the border bridge, so no vehicles can pass. Some have suggested that Guaido and his supporters create a human chain, handing packages person-to-person to move them from Colombia to vehicles in Guaido's caravan.

If the two sides engage peacefully, it will be the first large-scale breach of Maduro's power since Guaido declared himself interim president after the fraudulent elections.

U.S. Supreme Court Rules Constitutional Ban on Excessive Fines Applies to States... An Indiana man sued after the police confiscated his \$42,000 Land Rover when he was convicted of selling \$385 worth of heroin. He had purchased the vehicle with proceeds from a life insurance policy. The police used the process of civil asset forfeiture to take the vehicle, a process widely used across the country to take assets and cash from citizens.

Because the forfeitures aren't part of legal proceedings, individuals must sue to prove the assets weren't the result of or used in a crime, which can be a lengthy and expensive process. Many simply settle or walk away. In one notable exchange, the State of Indiana's lawyer agreed that under asset forfeiture a person driving a Ferrari could have the vehicle taken away if he was caught speeding by five miles per hour over the limit.

The ruling is expected to challenge asset forfeiture across the country.

Next Week - The last days of February bring reports on housing starts, the CoreLogic S&P/Case-Shiller Home Price Index, and fourth-quarter U.S. GDP growth. Notably absent will be the Employment Situation Report, which the BLS will release on March 8 instead of March 1.

A handwritten signature in black ink, appearing to be the name 'Rodney' written in a cursive, stylized font.

Rodney

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