Weekly Market Review

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***e*Research Corporation** is pleased to provide a review of the markets by Eddy Elfenbein of Crossing Wall Street.

Mr. Elfenbein introduces his commentary with the following quote from Jack Welch (ex GE CEO:

"If you don't have a competitive advantage, don't compete."

Read Mr. Elfenbein's analysis and market comments on the following pages.

Information about Eddy Elfenbein and **Crossing Wall Street** is provided at the end of this article. You can also learn about **Crossing Wall Street** by going to its blog website at: http://www.crossingwallstreet.com/.

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March 8, 2019

Crossing Wall Street: Weekly Market Review

by Eddy Elfenbein

BW: We have taken only an extract of Mr. Elfenbein's latest weekly article. If you wish to read the entire article, which includes stocks in his recommended portfolio, there is a link provided below.

Last Friday, Wall Street got spooked by a poor jobs report. For February, the economy created just 20,000 net new jobs. Wall Street had been expecting nine times that number. Some folks are dismissing this as a one-off and not indicative of a souring economy, while others think this is the beginning of more bad news.

As for me, I take a middling view. The economy is still doing well but, as investors, we need to be prudent. The fact is that earnings growth is slowing down. We are currently in the "lull" period between earnings seasons when there is not a lot of financial or economic news. As such, every news item probably draws undue influence.

Every day, it seems, the market gets jostled by whatever the current headline is on China or North Korea or Brexit. These issues simply are not that central to the market's long-term bearing. For investors, everything comes down to earnings and interest rates. Outside that, the rest is noise.

In this week's issue, I want to take a closer look at where we are with the economy. There are some cracks appearing in the façade. I also want to take an early look at Q1 earnings season, which is still a month away. This looks to be the slowest growth for earnings in quite some time.

The Jobs Report Was A Bust, But Should You Be Worried?

Last Friday, the government released the jobs report for February, and the numbers were not good. The U.S. economy created just 20,000 net new jobs last month. That was far below expectations of 180,000. In fact, this was the third-lowest number of the past eight years. The unemployment rate ticked down to 3.8%.

A few points. One is that the jobs data is revised several times. Also, by the government's admission, the jobs data is a rough estimate with a fairly large error margin. The problem is that this report aligns with some (note my word choice here) other economic data.

For example, I have previously discussed the rotten retail-sales report for December. I tend to think it is a bad number because some retail businesses said they have been doing well. This week, however, the retail-sales report for January was a bummer as well. In fact, the lousy report for December was revised downward. It is even *lousier*. For Q1, the Atlanta Fed now expects GDP growth of just 0.4%. Yikes!

I have also noticed that some of the recent weekly jobless-claims reports have been on the soft side. That could be due to the government shutdown. That data series tends to bounce around a lot. Also, the labor markets tend to be a lagging indicator. In fact, I have dug through the numbers and found that high unemployment is often a very good buy signal for stocks.

As always, the housing market is crucial. This week, the new-home-sales report came in below expectations. The soggy housing market may pick up soon since mortgage rates have fallen to the lowest in over a year. Recently, economists at Goldman Sachs made the case that housing is due for a rebound. I think they are right, and it is another reason why a patient Fed is good news.

Not all the economic news has been bearish. This week, the Commerce Department said that orders for durable goods rose by 0.4% in January. That is the highest in six months. Also, the jobs report showed that average hourly earnings are up 3.4% in the last year. That is not great, but it is the highest rate in the last ten years. That underscores an important aspect of the economic recovery: lots of jobs have been created, but wage growth has been listless. I think we are a long way from full capacity.

On Wednesday, the S&P 500 did something I would not have predicted. It hit its highest level since early October. This is also another reason why I don't try to predict where the market is headed. (Once a member of the financial media asked me what my "year-end target" was. I said "December 31st." I haven't heard back from him.) Here's a cool fact: Since World War II, the stock market has been up in the 12 months following the midterm election every time. That is a perfect 18-for-18.

Before this week, the S&P 500 fell eight times in nine sessions. Monday, Tuesday, and Wednesday of this week were all strong up-days. The index is currently above its 50- and 200-day moving averages. However, I want to stress caution. Within the stock market, the industrial sector has been badly lagging. Coupled with this, small-caps issues have lagged while the biggest stocks have enjoyed the best gains.

This is a good time to be conservative. Look for solid dividend stocks, and stay away from any shaky high-fliers. Let us take a look at what we can expect when first-quarter earnings season begins in a few weeks.

This Could Be The Worst Earnings Season In Three Years

March is already halfway over, and soon Q1 earnings season will be upon us. This will be an interesting season for Wall Street because earnings got a big boost in 2018 thanks to the corporate tax cut. That story has run its course. For Q4, the S&P 500 had the highest number of earnings misses since Q4 of 2013.

Currently, Wall Street expects Q1 earnings from the S&P 500 of $37.12 per share. That is the index-adjusted number. Every one point in the index is worth roughly $8.4 billion. Over the last six months, the Q1 estimate has been revised lower by nearly 10%. If that estimate is correct, it would represent growth of just 1.6% over last year. That would be the weakest growth in some time. In fact, there is a good shot that Q1 growth will not be growth at all but, instead, will show an earnings decrease.

The big weak spot is Energy. Oil prices still have not done much. Consider that **ExxonMobil** (XOM) is expected to earn $4.32 per share this year. That is down from $4.88 per share last year. In 2011, the company made $8.37 per share.

The other earnings weak spots are in Materials (-11%) and Consumer Discretionary (-11%). This certainly reflects the housing slowdown. On the plus side, earnings for Financials are expected to be up 14%, and Healthcare is expected to be up 30%. Quiz: What are the best-performing sectors over the past year? Answer: REITs and Utilities. Yep, the boring stuff has been working. Interestingly, the Financial sector has the lowest aggregate Price/Earnings Ratio.

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Next Week: The Federal Reserve meets again on Tuesday and Wednesday. The policy statement will come out on Wednesday afternoon. Don't expect any change to interest rates. The Fed will also update its economic projections for the next few years. The factory-orders report is on Tuesday. Then, on Friday, the existing-home-sales report is due out.

Be sure to keep checking the blog for daily updates, and I will have more market analysis for you in the next issue of *CWS Market Review*!.

- Eddy

BW: In the rest of the newsletter, Eddy reviews his Buy List and reviews any of the stocks that are in the news. You can read about them and the entire article by clicking on the following link.

http://www.crossingwallstreet.com/archives/2019/03/cws-market-review-march-15-2019.html

ABOUT THE AUTHOR

Eddy Elfenbein is a Washington, DC-based speaker, portfolio manager, and editor of the blog, **Crossing Wall Street**. He was named by CNN/Money as the best buy-and-hold blogger, His free Buy List has beaten the S&P 500 for the last seven years in a row, and by 47% in the last thirteen years.

BW: Information on Eddy Elfenbein and Crossing Wall Street follows on the next page.

Welcome to Crossing Wall Street

I started this website to help individual investors. I have to admit that I love the stock market. I think I must be an addict. In my opinion, the stock market is one of the greatest inventions in history. The stock market is simply the most consistently successful way to make money over the long term. Even after the financial crisis, stocks have still beaten every asset category over the long haul—bonds, commodities, and real estate.

While the stock market may bounce around from day to day, and even month to month, the long-term trend has always been higher. Over the last 35 years, stocks have gone up 35-fold. And since the end of World War II, the stock market is up an amazing 120,000%. I wish I had been around! That was the beginning of an American financial revolution. Today, we are at the beginning of a global financial revolution. That is why I think the next 70 years will be even better.

The key to doing well on Wall Street is actually very simple: Buy and hold shares of outstanding companies. But too many investors never learn this valuable lesson. Or if they do learn it, they learn it the hard way. That is where I come in. I want to help investors avoid the mistakes that separate successful investors from those who always find themselves spinning their wheels.

There are lots of pitfalls on Wall Street. From shady companies that are more popular than they are profitable to a mutual fund industry that is more interested in its fees than serving investors. Today's investors must be careful.

At **Crossing Wall Street**, I give investors my free and unbiased view of the market. I probably analyze dozens of companies every week. I am always looking over income statements and balance sheets. I have spent several years collecting my list of the best companies to own. This is my current Buy List. I have included a description of each company and its current share price. These are the ones that I make the most effort to follow on the site, but please feel free to ask me my opinion on any stock. I don't receive compensation from any of the stocks I recommend. Also, I don't "short" any of the stocks I criticize. At any time, I may own the companies on my Buy List. All of the information on this site is free and unbiased. I also have a section for Frequently Asked Questions that will help you learn more about **Crossing Wall Street**.

Please feel free to e-mail me. I enjoy getting feedback from investors. I am happy to give you my opinion on any stock or investing in general. I should warn you that I cannot give out personal portfolio advice, but all other topics are fair game. You can also check out some of my favorite links.

- Eddy Elfenbein

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