Winslow, Evans & Crocker, Inc.℠

FEBRUARY 2019

GLOBAL ECONOMICS & CAPITAL MARKET COMMENTARY

GLOBAL ECONOMICS

Douglas E. White, CFA
Chief Investment Office
Executive Vice President
(617) 896-3518
dwhite@e-winslow.com

Rand Folta, CFA
Executive Vice President
(617) 896-3590
rfolta@e-winslow.com

INSTITUTIONAL TRADING

Fixed Income

Nomi Caperton
Managing Director
(617) 896-3526
ncaperton@e-winslow.com

David Strimaitis
Managing Director
(617) 896-3577
dstrimaitis@e-winslow.com

Equity

John Bridges
Managing Director
(617) 896-3524
jbridges@e-winslow.com

SETTLEMENT AND TRADING

OASYS: WYNS
MPID: WYNS
DTC: 0443
Clearing: Pershing, LLC.

SETTLEMENT AND TRADING

OASYS: WUAW
DTC: 0725
Clearing: Raymond James & Associates, Inc.

WINSLOW, EVANS & CROCKER

175 Federal Street, 6th Floor
Boston, MA 02110
Phone: (617) 896-3500
Member: FINRA/SIPC

POST THE NON-RECESSION MARKET CORRECTION: THREE FUNDAMENTAL DYNAMICS PROVIDE A STRONG TAILWIND TO ADVANCE EQUITY MARKETS

In our January commentary, we argued that the market's pull-back in the last few months of 2018 represented a correction within a continuing strong economic cycle rather than a presaging of an imminent recession. As illustrated in Chart #1 the S&P500 did indeed decline nearly 20% from peak to trough, almost entering bear market territory, until beginning its rebound the day after Christmas.

Member FINRA/SIPC • Accounts are carried by Pershing LLC, Member FINRA/NYSE/SIPC and Raymond James & Associates, Inc., Member of NYSE/SIPC

The information contained herein, including any expression of opinion, has been obtained from, or is based upon, sources believed to be reliable, but is not guaranteed as to accuracy or completeness. This is not intended to be an offer to buy or sell or a solicitation of an offer to buy or sell the securities, if any referred to herein.
Women Business Enterprise (WBE) certified through The Supplier Diversity Office FKA: SOMWB

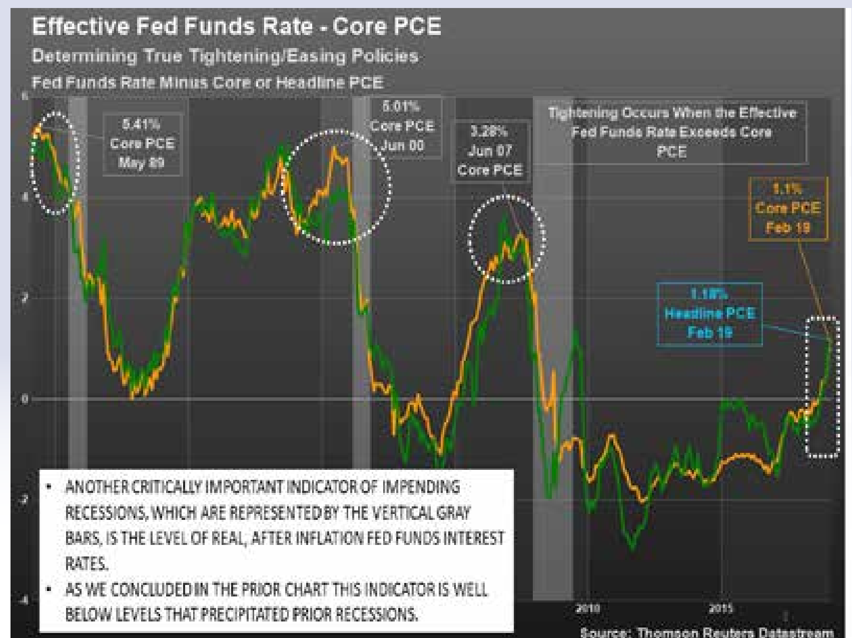
CHARTS 2-3

The index has now exited correction territory. The same is also true of other, more tech laden indices such as the NASDAQ and the QQQ's. The two key data series upon which we based our optimistic view were the US leading economic indicators six month percent change, Chart #2, and the real, after inflation e fective Fed Funds Rate, Chart #3. Both of these data series remain at levels that continue to support our view that a recession remains one to two years away. Recessions mean that S&P500 earnings growth becomes negative which always precipitates a bear market. Until that time, however, earnings growth, at various levels, remains positive and thus supportive of equity markets.

In addition to our conviction that a recession remains a distant threat there are three fundamental catalysts that we see as providing a durable tailwind for US equities over the next year.

2

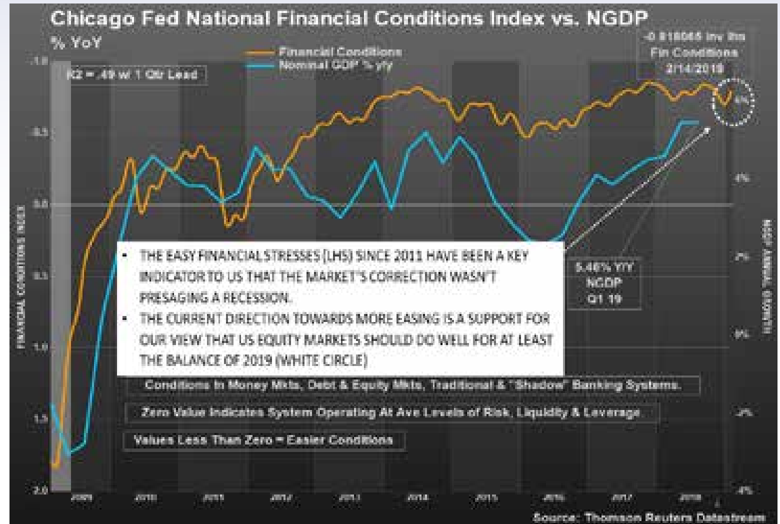
3



CHARTS 4-5

First, the financial stress that ignited last yea 's correction have significantly eased. The comments by the chairman of the Fed, Robert Mueller, that the Fed would be "patient" in 2019 regarding rate increases provided the markets with a level of confidence that the Fed wouldn't choke o f the market rally. Our view of how financial conditions will affect the economy and the markets is infl - enced by financial stress indices published by the Chicago Fed, amongst others. Chart #4 illustrates the relationship between the Chicago Fed's measure of financial stresses in the system against the annual growth of nominal GDP. The gold line represents the Financial Stress Index and, on the chart, is inverted. There are three important conclusions to draw from this time series. First, whenever it is negative as it has been since 2011, it implies that financial conditions are easier than average. Secondly, just over the last few months the index is trending to even easier levels and, thirdly, there is a very positive correlation between NGDP growth and easing financial stress. Chart #5 provides further evidence that easing financial stresses are positive for the equity markets. It is clear in this chart that as financial conditions ease the year over year growth in the S&P500 becomes more positive. The current level shown on the chart is further support for view that current fina - cial conditions are also a tailwind for this market.

4



5

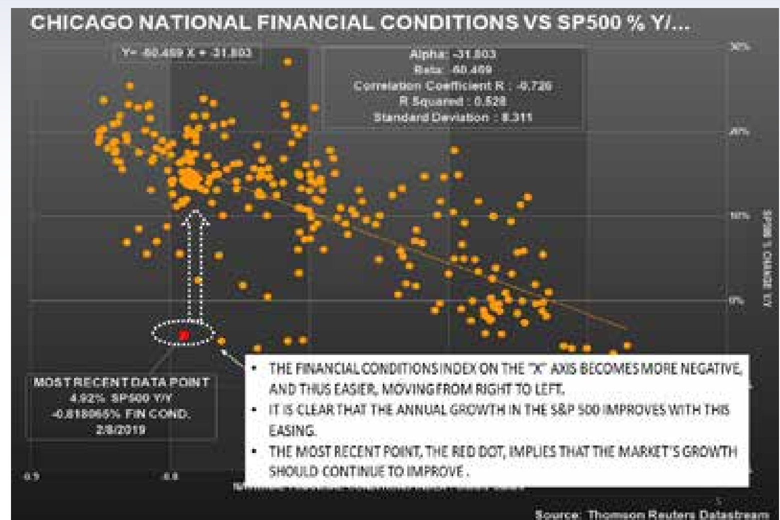
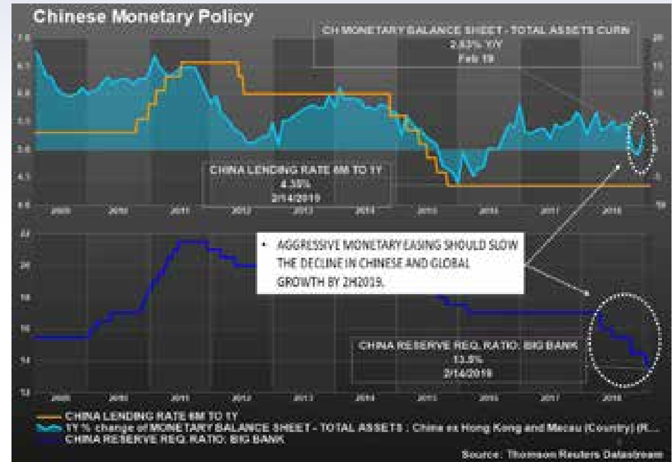


CHART 6-8

The second condition for our optimistic outlook is the fact that China is aggressively attempting to reflate their economy to halt the slowdown in their economic growth, Chart #6. This effort is nearly as important as the outcome of the trade negotiations with the US. In Chart #6 you see that the Chinese have been aggressively reducing their banking Reserve Requirement ratios and at the same time increasing the balance sheet of the PBoC central bank. Both of these measures are intended to slow the decline in the growth rate of their economy. This effort should also help to slow the decline in global growth. The increasing the size of the PBoC balance sheet, their version of Quantitative Easing, can also have a salubrious effect on US equity markets as shown in Chart #7.

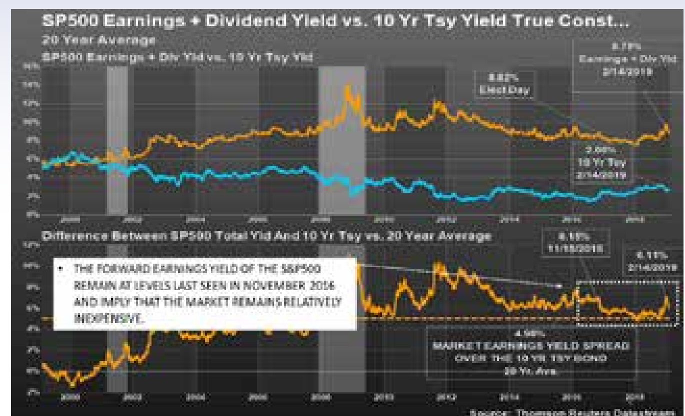
Finally, the forward earnings and dividend yield remain, despite the recent rally, well above their long-term relationship with the 10 year US Treasury Bond, Chart #8, thus implying that equities remain relatively cheap.

6



7

8



In conclusion there are several dynamics in place that bode well for continued strength in the equities market. General concerns over the US trade dispute with China; Brexit; geopolitical issues with Venezuela and the Middle East all appear to be discounted by the markets. Should any of these issues be resolved to the positive it will act as an additional tailwind for equities. As always, there are risks that the trade war will worsen; a military confrontation could erupt in Eastern Europe or Asia; and, the US Fed could always make another monetary misstep.

Please contact your investment advisor if you feel that any of these subjects might impact your portfolio allocation.