INVESTMENT COMMENTARY & OUTLOOK

April 9, 2019

Even though the S&P 500 is off to its strongest start in almost a decade, Lipper reported that stock mutual funds had outflows of $39.1 billion in the first quarter. Some of these outflows could have been attributable to ETFs capturing more market share, but the real reason appears to be that companies in the S&P 500 repurchased $227 billion of their outstanding stock in the first quarter according to FactSet. We should add that in the first quarter of 2018, companies in the S&P 500 repurchased $143 billion according to FactSet, so stock buy-backs actually soared 58.7% in the first quarter! There is no doubt the low interest rate environment is boosting these stock buy-backs in addition to the Trump tax cuts.

Our friends at Bespoke like to follow the "smart money" on Wall Street and noted that in January and February these smart folks chose to buy during the last hour of trading between 3 pm to 4 pm EST. However, in March there has not been much buying pressure in the last hour of trading, which is raising concerns that the smart buyers have apparently turned into "patient" net sellers. Overall, we think that the stock market is getting much more selective, due largely to the anticipation of a rapid deceleration in corporate earnings for the next three quarters.

Furthermore, thanks to the continued Brexit chaos, interest rates continue to fall around the globe. There is no doubt that between the economic slowdown in both China and Europe interest rates in key global markets will remain near historic lows.

When key interest rates approach 0% or become negative rates like they are in the Eurozone and Japan, then quantitative easing is the "last resort" to stimulate economic growth. The fact that the European Central Bank (ECB) is gearing up for more quantitative easing is actually very scary. In the meantime, all that quantitative easing in Europe and Japan just fuels more stock buy-backs, since interest rates are so low around the globe. Low rates in Europe and Japan create more demand for Treasuries, which lowers longer-term U.S. interest rates in a year of record Treasury issuance.

I should add that President Trump seems very frustrated with the current pace of economic growth. He recently called for the Fed to (1) cut key interest rates and (2) resume quantitative easing to stimulate economic growth. Frankly, we expect that the FOMC will ignore President Trump's call for quantitative easing, which is unnecessary given the state of the economy. There is no doubt that President Trump is setting up the Fed to be a scapegoat for the current economic deceleration, particularly if it continues.

Since the S&P 500's dividend yield is approximately 1.86% and most of those dividends are taxed at a maximum federal rate of 23.8%, stocks remain attractive given the low Treasury yields. Normally, falling Treasury bond yields attract buying pressure in dividend stocks, which then spreads to conservative growth stocks, so we remain especially optimistic that our dividend growth stocks will now lead the overall stock market. Ironically, the Treasury market gave Mr. Trump a longer-term interest rate cut (or two) when the 10-year yield declined from 3.25% in November 2018 to 2.35% in March 2019.

This year is shaping up to be more of a stock picking year than a sector year, because the stock market is expected to become increasingly narrow due to lackluster earnings for the next few quarters. With the first-quarter announcement season now commencing, we expect that it will soon be "every stock for itself." Our best defense remains a strong offense of our fundamentally superior dividend growth and conservative growth stocks that buy back their outstanding stock, boost their dividends, and continue to post strong sales as well as earnings.

SUMMARY

In the end, I feel we are entering a stock picker's market and we expect continued strong performance for our fundamentally superior stocks in the upcoming months as this link demonstrates:

https://navellier.com/private-clients/portfolios/sales-and-earnings-projections/

In the meantime, the Brexit chaos has resulted in negative interest rates for much of the Eurozone. The international capital flight to the U.S. has pushed Treasury yields lower. Even though the Eurozone appears to be slipping into a recession, the U.S. economy appears to be much more resilient. The Fed has already stated that it will not be raising key interest rates for the remainder of the year and that it can be "patient."

In summary, we remain in a "Goldilocks" environment with low interest rates, steady economic growth, and hope for the future as politicians run around and promise us everything and anything. U.S. consumers remain in a reasonably good mood and should continue to spend more money. Amidst the chaos around the world, the U.S. remains an oasis for investors.

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