MARKET Insights

Webster Private Bank

February 2019

On the Rebound

What a difference six weeks makes. Global stock markets have rallied powerfully since late December. The S&P 500 index gained **+7.8%** in January alone. International stocks (MSCI EAFE) and those in emerging markets (MSCI EM) gained **+6.5%** and **+8.7%**, respectively in US dollars. The bond market has also driven itself higher, in light of the Federal Reserve's determination to "be patient" in its statement following the January 30 FOMC meeting. Yields on the benchmark Treasury ten-year note fell back to **2.63%** at the end of the month, close to where interest rates were a year ago in late January 2018.

Global stock markets have rallied powerfully since late December

As we pointed out in last month's Market Insights, the stock market historically has delivered significant rallies following corrections as deep as **-10%** to **-20%**, such as the recent one from September 21 to December 24, 2018. The average return in the 12 months following such deep corrections has been **+30%**. So far, we are halfway through what the historical record suggests – the S&P 500 has gained **+15%** from its bottom on December 24th. If the current situation unfolds according to the historical script, the index would approach the 3,000 level over the course of this year, delivering a **+11%** gain from the closing level of 2,704 on January 31.

A Profit "Down Shift," Not a Recession

With nearly two-thirds of the companies in the S&P 500 index reporting, full year 2018 earnings per share (EPS) are expected to be $161.47 (per FactSet Earnings Insight, Feb 8). This represents a nearly **+21%** jump from the $133.51 earned per share in 2017. The large jump in 2018 was due in no small part to the Tax Cuts and Jobs Act of December 2017, which slashed federal income tax rates for companies both large and small. Therefore, it would not be surprising to see a slowdown in earnings after such a significant, one-time jolt to profits.

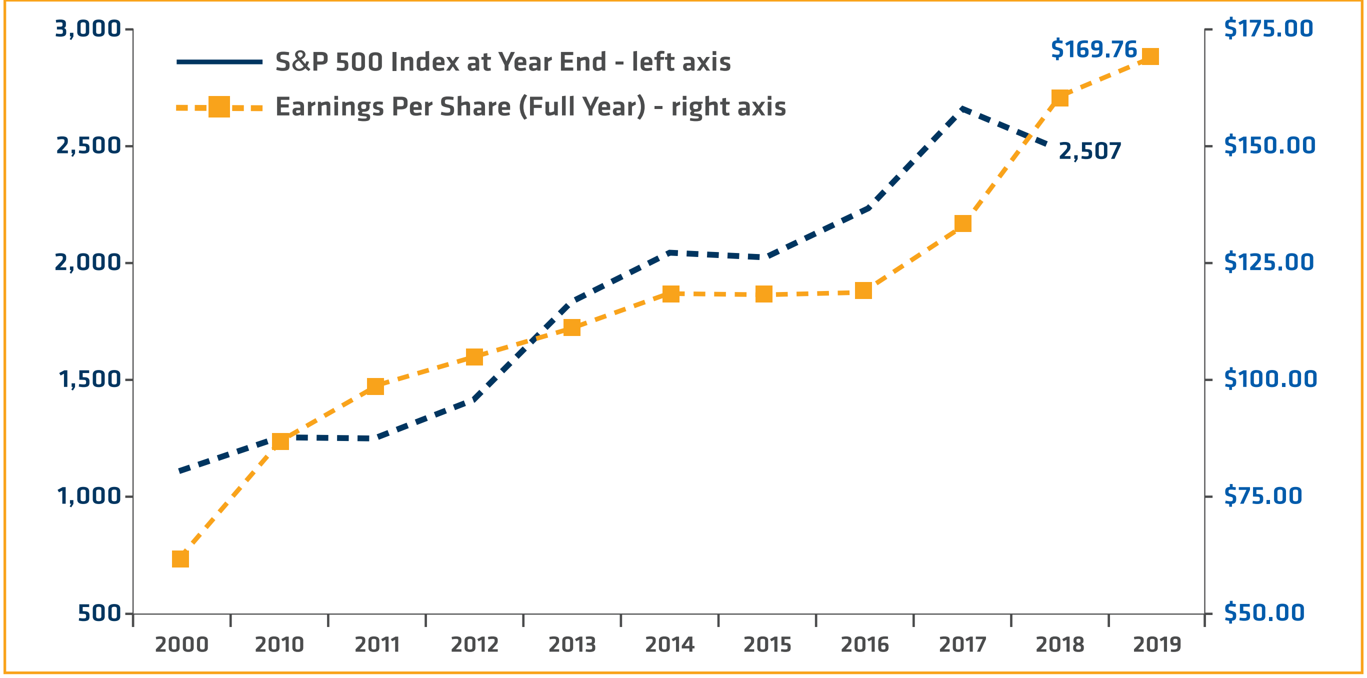
However, an earnings slowdown does not mean negative growth. Yet, the stock market recently has been pricing companies as if earnings were falling off a cliff. To be fair, Wall Street analysts currently expect earnings to decline by **-1.7%** in the first quarter of this year, but then expect full year 2019 earnings to grow **+5%** overall. This trajectory indicates the situation is not as dire as the recent market sell-off seemed to indicate.

MARKET Insights

Lagging Behind

As shown in the chart below, the past year's stock market performance trails the march upwards in corporate earnings. Stock market sentiment seems unnecessarily pessimistic. The S&P 500 has not lagged its underlying earnings fundamentals by this much since the early years of the bull market in 2010-2012. We view the current environment as an opportune time to purchase equities and will use periods of sharp declines to rebalance portfolios and "top up" stock holdings.

S&P 500 Closing Price vs. Full-Year Earnings



Source: FactSet indexes. 2019 Earnings Per Share of $169.76 is most recent forecast by FactSet Earnings Insight (Feb 8, 2019).

TO VIEW A MORE DETAILED DESCRIPTION AND ANALYSIS OF THESE INSIGHTS, VISIT WWW.WEBSTERBANK.COM/PB

We hope you've found this commentary helpful. When you're ready to put these insights into action, visit www.WebsterBank.com/pb, contact your Webster Private Bank Portfolio Manager, or email us at pbinfo@websterbank.com.

Webster Private Bank®