Money Talks by Dave Helscher   April 2019

The days are getting longer and, at long last, we may be able to put a brutal winter behind us. We are seeing early flowers trees beginning to bud. There is a school of thought among some investors and analysts that we are seeing some of the same things in financial markets, after a bruising 4th quarter 2018, a government shutdown earlier this year, and disruption of economic data reporting.

The Federal Reserve has shifted from a tightening stance to one of an extended pause. Their forecast reflects rate hikes on hold for the balance of the year and possibly one in 2020. They are winding up the shrinkage of their balance sheet, halting in September of this year. The President has tweeted his opinion that rates are too high and has suggested two possible nominees to the Federal Reserve Board that are more in line with his political opinion. Could additional pressure from The White House result in additional monetary stimulus to ramp up the economy in time for the 2020 election? The European Central Bank has also ended rate hikes and hinted at further stimulus. China is lightening up on bank reserve requirements and cutting taxes in an effort to stimulate growth in the world's second largest economy.

Will there be a trade deal announcement with China in the near future? Administration officials have teased with periodic statements about progress in negotiations, but are short on details. Possibly there are enough hints that some form of a deal will be reached, removing this source of market uncertainty. An agreement could clarify trade rules between the two largest global economies. There is enough there to discount the possibility that no deal will be the result, leaving the possibility of some agreement on some of the issues or a better than expected agreement on intellectual property protections and opening of the Chinese economy.

At this writing, we are in the midst of Q1 corporate earnings season. Expectations were low. The thought was year over year comparisons would suffer as the effects of the tax cuts begin to wane. It is still early in earnings season, but a number of sectors are reporting earnings surprising to the upside, or at least not as bad as feared. Analysts' estimates of full year earnings are starting to creep up, changing from a downward bias since last October. We have yet to hear from a number of the industrial companies and those relying on exports, but, initially, this earnings season bodes well for the markets.

You probably have noticed that gas pump prices are higher than earlier this year. Oil prices have been moving up, with west Texas intermediate trading in the mid-$60s a barrel. That, of course, translates to higher pump prices. Part of the increase is due to global demand exceeding estimates. Also, OPEC has exercised supply constrains they established, but Russia is only complying with about half

of their commitment. The U.S. has become a net exporter, but this increased supply is offset by supply disruptions in Venezuela, Libya, and Nigeria. Overall, this is good for the U.S. economy and the energy sector in particular. Should global demand increase, oil prices could move higher. This would be another green shoot for the economy and energy jobs.

Still investor sentiment remains cautious. Any of the above items could upset this scenario. This would be particularly true of a misstep by the Fed, changing short term rates, or if the China trade negotiations should come undone. A late season cold snap is not unheard of, but the direction of temperatures is decidedly positive. I would wish that the economic direction was as definitive.