Investment Management of Virginia

April 10, 2019

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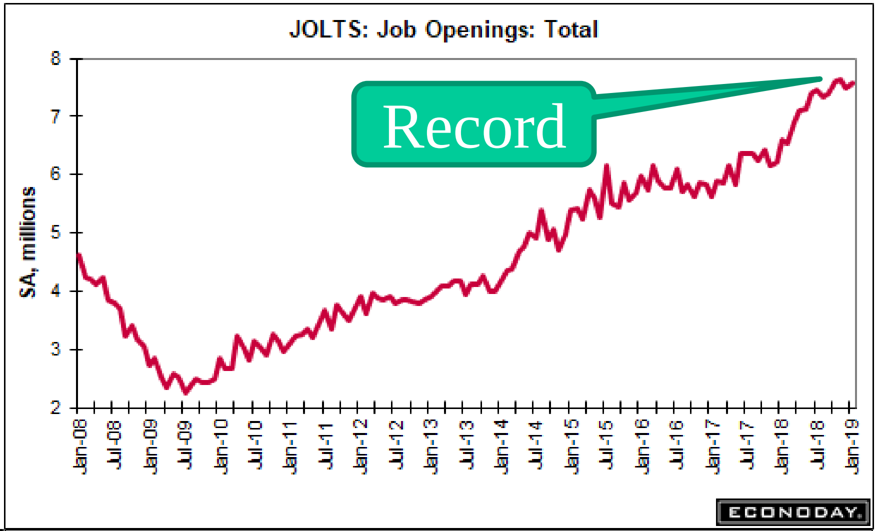
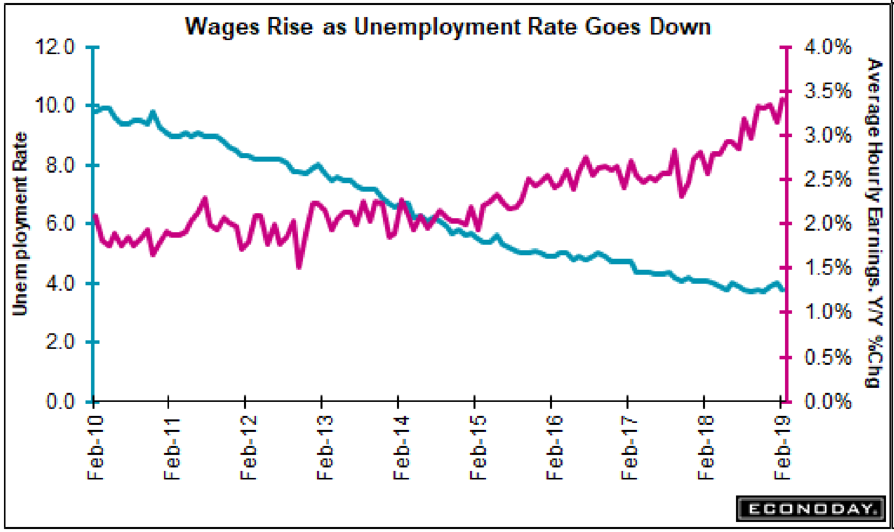
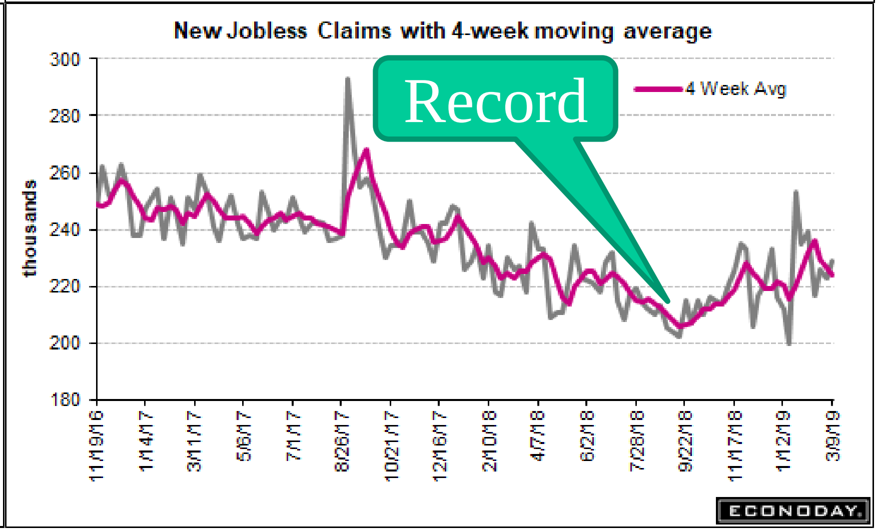
Interesting Charts and Commentary

EMPLOYMENT AND WAGES

Unemployment levels remain at record lows, and job openings continue to increase. The resultant tight job market is increasing wages for employees.







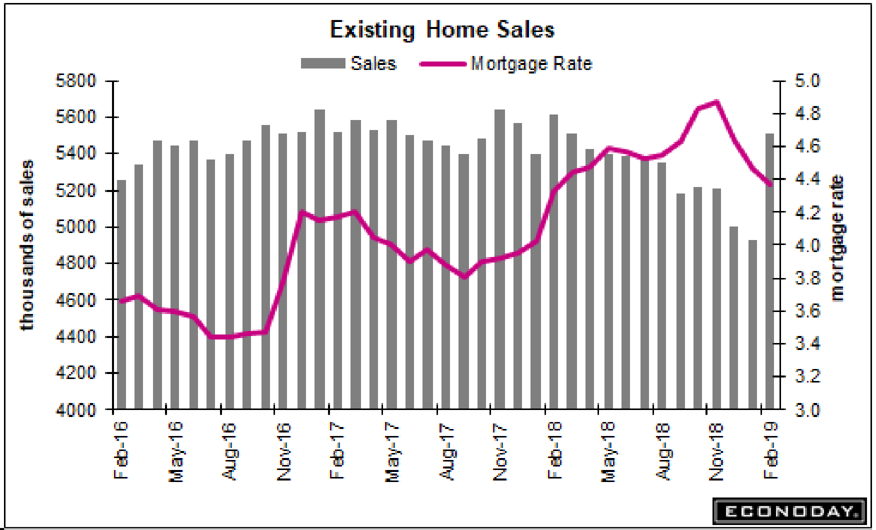
Source: Econoday.com

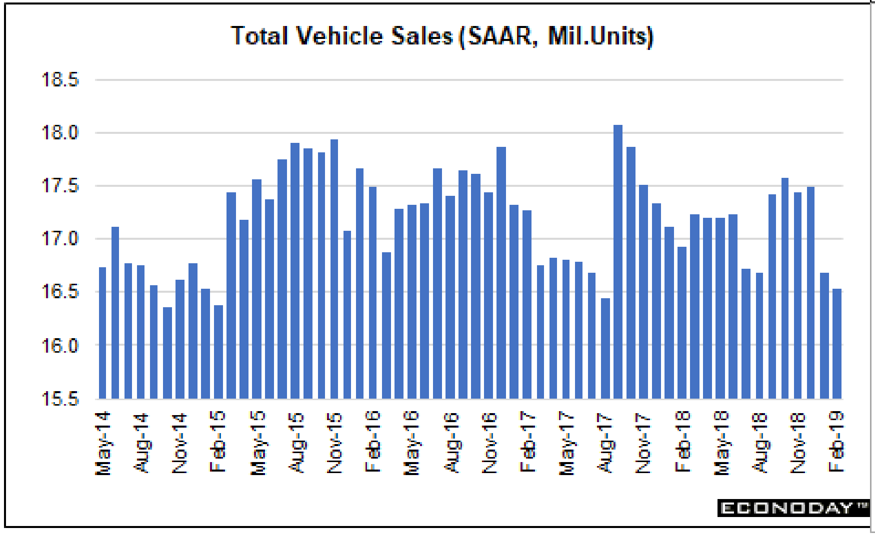
AUTOS AND HOUSING

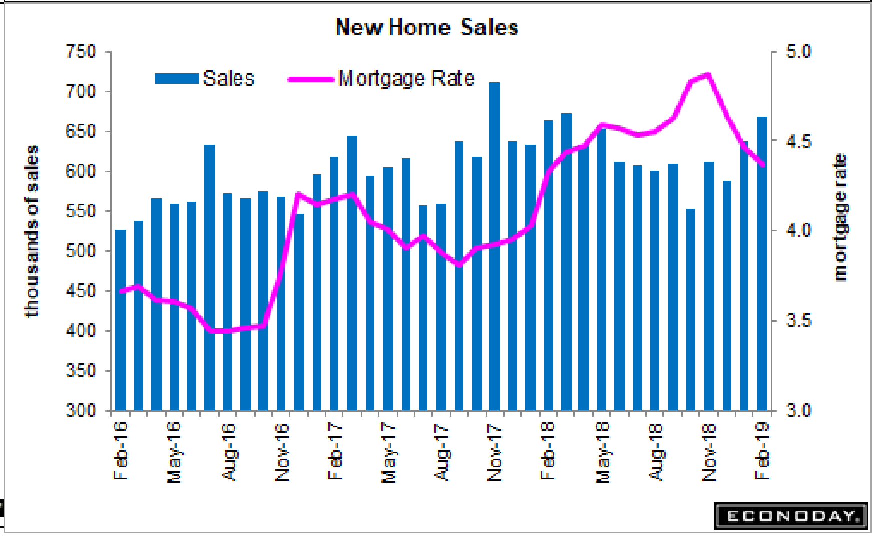
Despite the strong job market, the U.S. economy seems far from overheating, reflecting mixed data.

Total vehicle sales remain at plateau levels but may be slowing.

With lower long-term interest rates, housing trends appear to be firming.



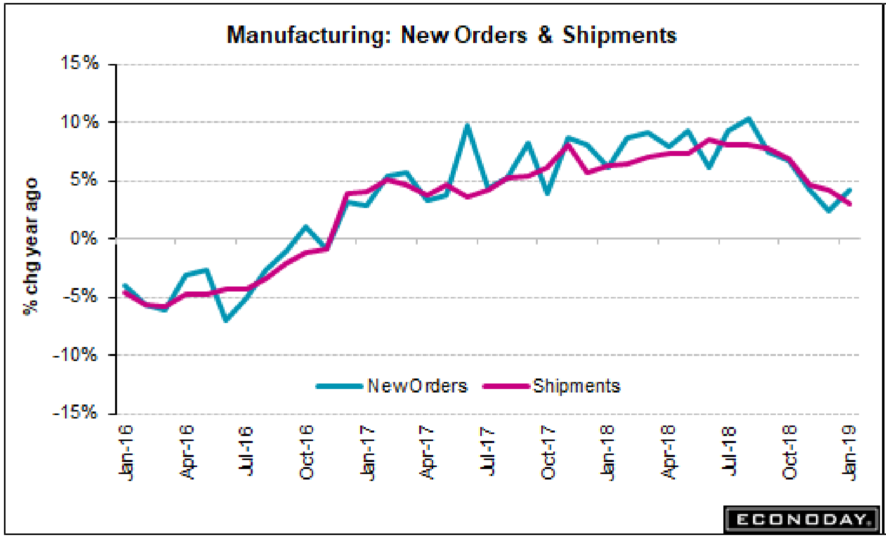


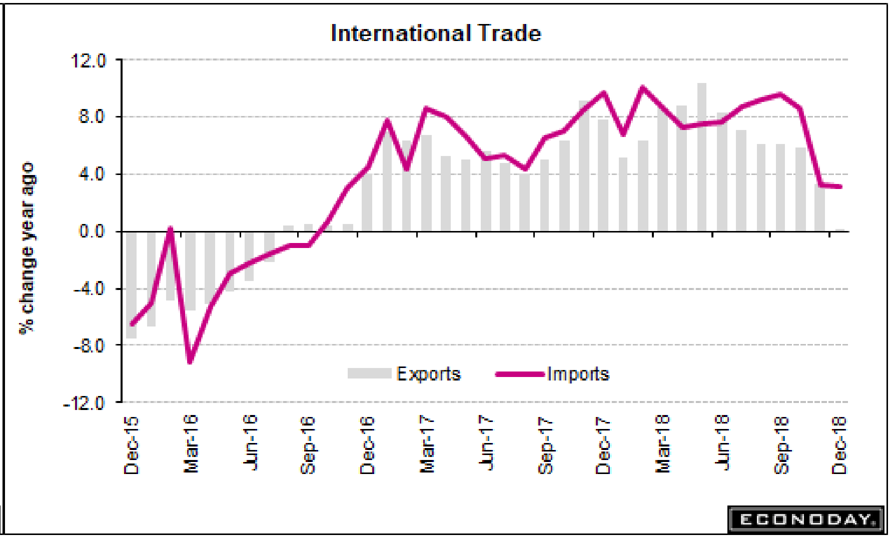


Source: Econoday.com

MANUFACTURING, FACTORY ORDERS, AND TRADE

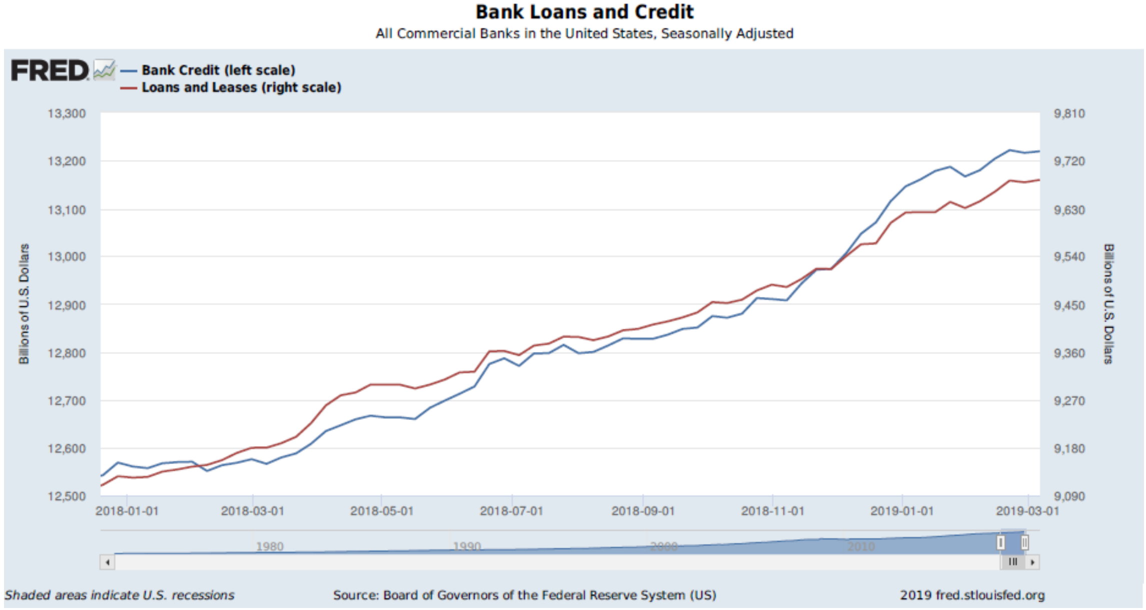
Internationally, economic growth has slowed as a result of a weak Chinese economy, Brexit concerns, and U.S. Government shutdown fears. Recent stimulative measures by the Chinese government have begun to improve the outlook for Asia and Europe. Manufacturing and international trade appear to be picking up after declining into year-end. The actual impacts of the early 2019 U.S. Government shutdown should become clear as Q1 earnings and economic data are released.

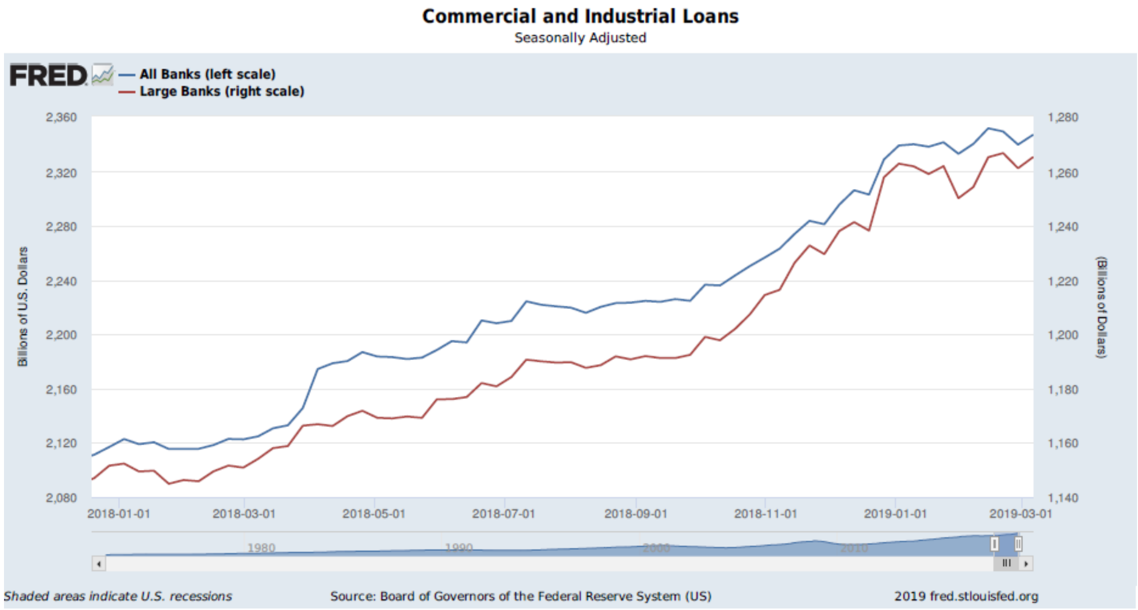




COMMERCIAL AND INDUSTRIAL LOANS

Despite the slowing global economy, loan growth continues at an accelerated pace. Banks seemingly have no fear of a recession by U.S. consumers or businesses.



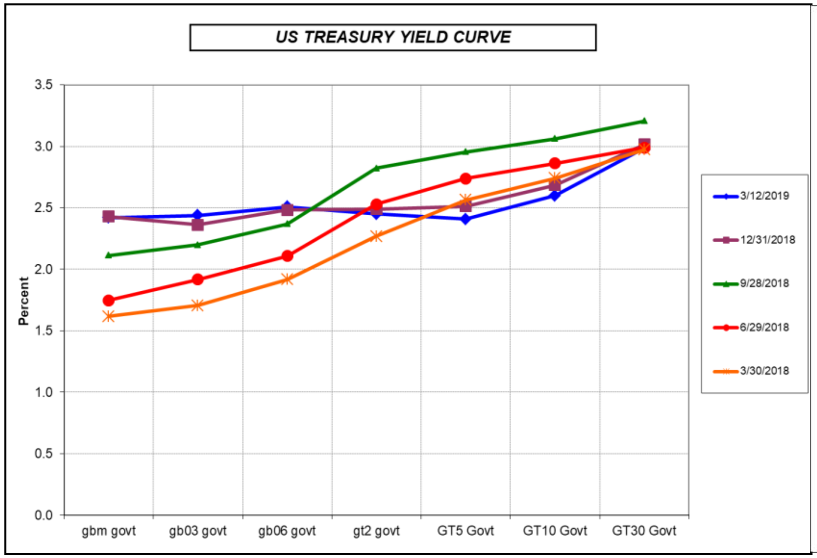


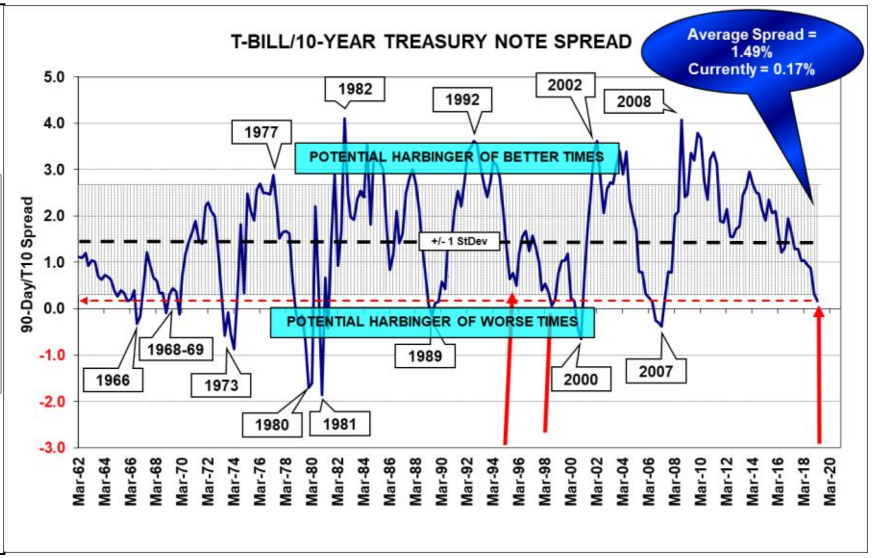
Source: St. Louis Federal Reserve Bank

THE FEDERAL RESERVE PAUSES

After signaling as late as November that rate increases would continue, the Federal Reserve made a quick U-turn on rate hikes. Chairman Powell indicated several times at the beginning of the year that the Fed likely is done increasing rates over the near-term.

This is good news for the markets because it may keep the yield curve from fully inverting (long rates below short rates). Historically, an inverted yield curve has accompanied recessions. Presently, the middle of the yield curve is slightly inverted, but 30-year bond yields remain above those of shorter maturities.

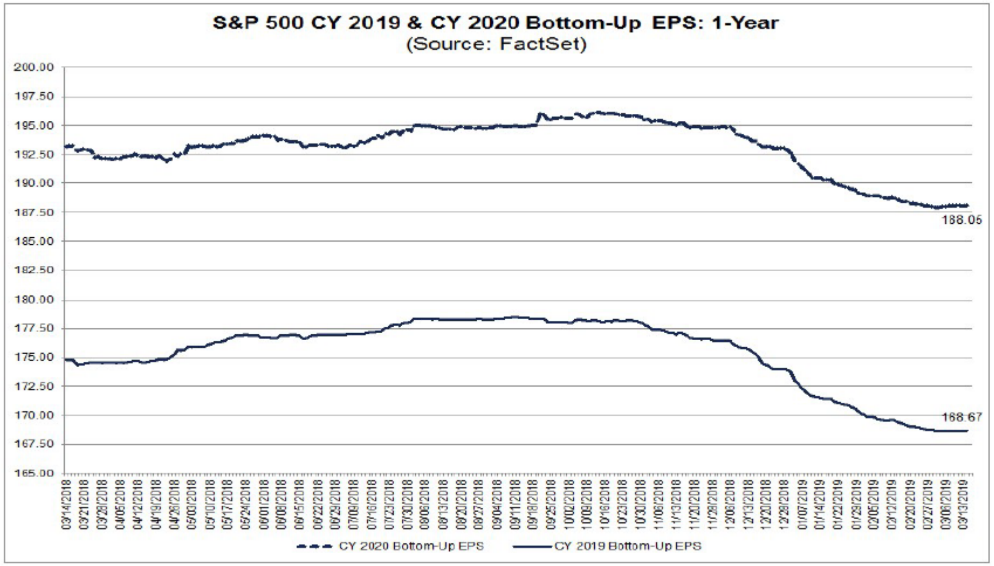




Source: Bloomberg LP, IMVA, and St. Louis Federal Reserve Bank

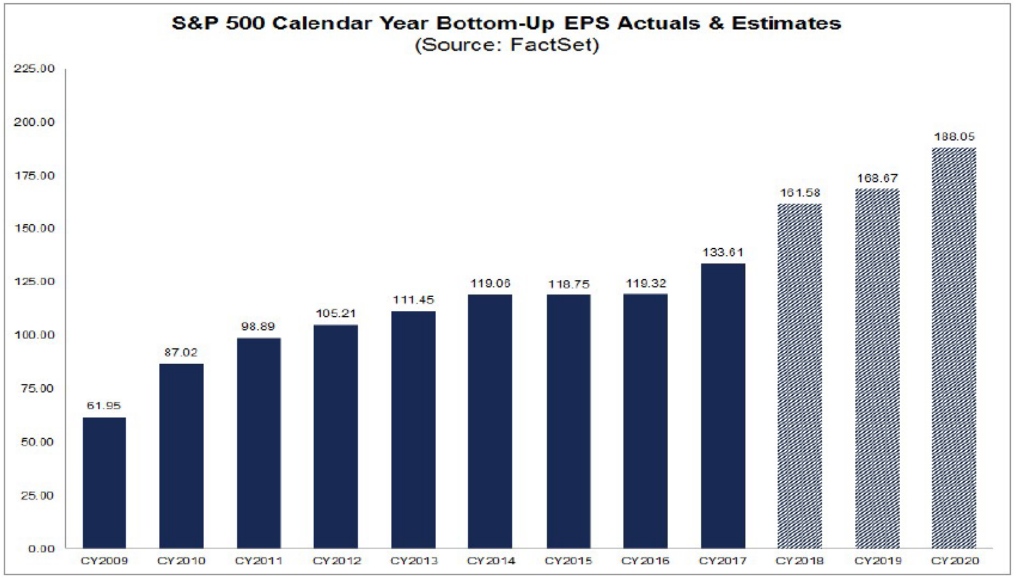
EARNINGS ESTIMATES

Bottom-up EPS Estimates: Revisions



Forward earnings estimates show growth for 2019 but have been drifting lower on concerns of decelerating global macroeconomics. Stabilization at this point would represent 4.4% growth for 2019. First quarter earnings will give investors better information as to what to expect for the rest of the year.

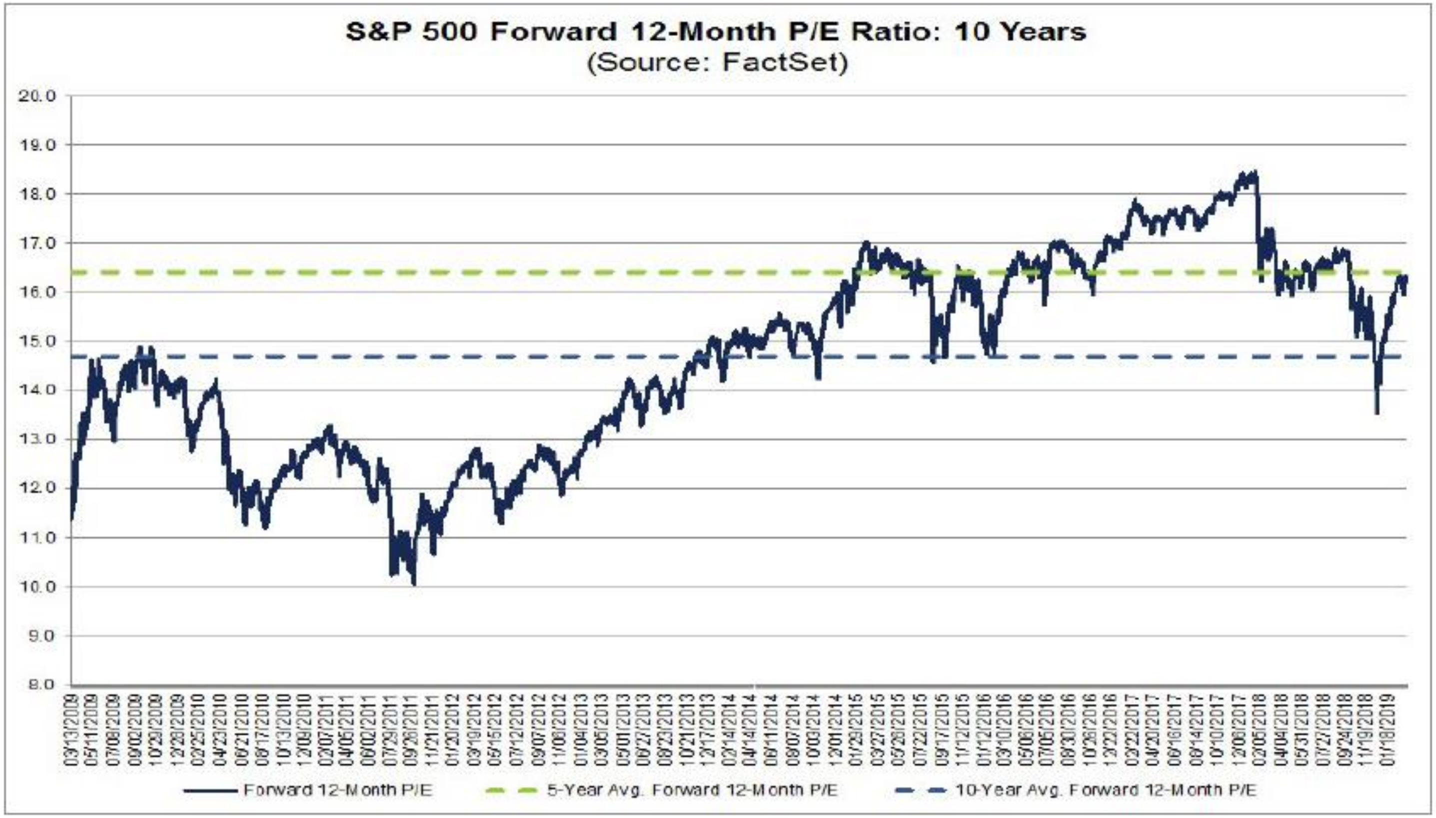
Bottom-up EPS Estimates: Current & Historical



Source: FactSet

VALUATION

After the bounce in the first quarter of 2019, the markets seems fairly valued versus long-term price-to-earnings (P/E) averages. Given slowing earnings growth, markets may remain range-bound for the time being.



Source: FactSet

Overriding Themes

Domestic and international economies appeared to slow in late 2018 on fears of an impending U.S. Government shutdown, Brexit, and uncertainty related to trade problems/negotiations with China. Weak data from China compounded these fears, especially among manufacturers.

However, recent data-points and corporate outlooks suggest a modest recovery in the U.S. and global economies heading into Spring. The U.S. labor market remains strong, housing appears to be picking up with lower interest rates, and the U.S. consumer generally appears to be in good shape. Recent stimulative measures by the Chinese government have begun to improve the outlook for Asia and Europe.

After signaling as late as November that rate increases would continue, the Federal Reserve made a quick U-turn on rate hikes. Chairman Powell indicated several times at the beginning of 2019 that the Federal Reserve may be done with rate increases, at least through the end of the year. This stance is good news for the markets because it may keep the yield curve from fully inverting.

Forward earnings estimates show growth for 2019 but have been drifting lower on concerns of decelerating global macroeconomics. Stabilization at this point would represent approximately 4.4% growth for 2019.

Disclosure:

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