Encouraged by Signs of Stabilization in the Global Economy.

While U.S. economic indicators remained healthy, global leading indicators had been deteriorating since early 2018. Encouragingly, we are seeing signs of stabilization – led by massive Chinese economic stimulus that is feeding into improving global indicators. Inflationary pressures remain muted and this is allowing central banks to remain accommodative with monetary policy. We are also in the middle of first quarter earnings season with results coming in better than expected. All of this should continue supporting stocks and other risk assets.

Steady U.S. Economic Readings Should Put Recession Fears to Rest: Strong retail sales, labor markets, and consumer expectations last week continue to suggest slower, but still healthy, U.S. economic growth.

Retail sales jumped 1.6% in March, the most since September 2017. This offset the weakness from late-2018/early-2019, as consumers remain the driving force of the economy despite a soft holiday shopping season, a volatile stock market, a partial government shutdown, and delayed or reduced tax refunds.

The Leading Economic Index (LEI) for March increased the most in six months. Eight of its 10 components made positive contributions, led by initial jobless claims and consumer expectations of business conditions. This reading is consistent with continued but softer economic growth over the next six months.

The NAHB Housing Market Index (a homebuilder survey) rose in April and is up in three of the past four months. While the index is off its cycle high reached in December 2017, it is comfortably in expansion territory and the pickup this year is a positive for the spring home buying season. The latest increase was led by more traffic of prospective buyers. With lower mortgage rates helping affordability, we expect housing to perform well in 2019.

Initial claims for unemployment insurance dropped 5,000 last week, its fifth decline in a row, to just 192,000, the lowest level since September 1969 – indicating tight labor market conditions. This weekly jobless claims data is important because it has historically been an accurate and timely indicator of labor market and overall economic health.

Preliminary Global Business Surveys Show Signs of Stabilization: Preliminary manufacturing PMIs (business surveys) of the eurozone, France, Germany and Japan perked up slightly, and although they remain in contractionary territory, the change rather than the level may indicate an inflection. We continue to expect improvements in China to lead to improvements in global economic conditions.

Encouragingly, we continue to see signs that China’s massive stimulus is gaining traction. Last week, Chinese industrial production rose sharply to 8.5% year-over-year (y/y) from 5.3%, and fixed asset investment and retail sales rose to 6.3% y/y and 8.7%, respectively. China also saw stable first quarter economic growth of 6.4%.

Earnings Season Update: 20.7% of the S&P 500’s market capitalization has reported first quarter results. And we are encouraged that earnings are beating by 6.0%, with 77% of companies exceeding their estimated results. So far, earnings are on pace for 2.4% growth, which is better than the currently estimated -1.8% growth.