January 18, 2019

Santa Clause rally in January

Markets worldwide sold off heavily in December, historically a strong month for stocks. The December downturn, top to bottom;

	December (top to bottom)	Subsequent Gain (to Jan. 15)
S&P500	-16.0%	+11.0%
NASDAQ	-16.8%	+13.4%
S&P/TSX	-9.8%	+9.2%
Nikkei 225 (Japan)	-15.1%	+7.3%
Eurostox 50 (Europe)	-8.6%	+4.0%
Emerging Markets (USD)	-9.5%	+6.6%

Source: Thomson One

Starting on December 26, markets began to recover and have rallied significantly in the first two weeks of January. The so called “Santa Clause rally” was supposed to arrive before Santa saved his reindeer and delayed delivery until December 26.

S&P 500 in 2018

Source: Thomson

Investor sentiment was poor, beaten up by political wrangling in the U.S. and the U.K., fear the U.S. central bank (FED) would raise interest rates too quickly, fear the U.S. would go into recession, fear that a real trade deal between China and the U.S. would not be possible, fear that Italian debt issues would hamper the ECB's ability to normalize their monetary policy … FEAR.

So where are we now?

Investor sentiment while still fragile has markedly improved. There has been a decrease in market volatility, which has coincided with rising global stock prices. The pace of economic growth, although slower is still positive. Corporate profit growth, the life blood of stock price growth, although slower, is still positive. There are no recession signals at the moment. Trade war rhetoric with China has become more muted. Italian bank financials are slowly improving. China is slowly managing its economic growth lower and is stimulating, albeit modestly. U.S. job growth continues to be very strong and wage growth is positive, boosting consumer spending.

Some worries remain. The U.S. government shutdown is an issue. Trump's insistence on a border wall funding continues to put a damper on sentiment. In the U.K, Brexit has now exploded but an election and change of government has been avoided, so far. Trade developments will continue to have an impact on economics, investor sentiment and markets.

Can investors become so negative and fearful to the point of talking themselves into a bear market? Can consumers worry and retrench so as to cause a recession when one is otherwise unlikely? Yes.

The markets in December priced in too much negativity. One significant change that has been a key reason for this rally is the patient tone from the U.S. Federal Reserve, likely meant to calm financial markets. Concerns about rising rates have faded, a key positive for stocks, and that has helped investors regain much of the decline.

Although we do not see volatility rising back to levels seen in December, near term challenges remain for stock markets. Trade developments will be front and centre in coming weeks. As worries an volatility continue to moderate, we see upside for global stock markets in 2019.

Worth Allaye-Chan Investment Counsel | www.worthallayechan.com |
worthallayechan@raymondjames.ca
Suite 2100-925 West Georgia Street, Vancouver, B.C., Canada V6C 3L2
T: 604.659.8066 TF: 1.855.659.8066 F: 604.659.8449

WORTH ALLAYE-CHAN
INVESTMENT COUNSEL

RAYMOND JAMES®