THE WALL STREET JOURNAL.

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U.S. Stocks Post Best January in 30 Years; Gains by banks and small caps helped lift the Dow and S&P 500 to their best starts since the 1980s

By Amrith Ramkumar
1,044 words
31 January 2019
04:02 PM
The Wall Street Journal Online
WSJO
English

Banks and smaller companies propelled stocks to their best Januaryin 30 years, a sign that investors are favoring sectors tied to the U.S. economy.

Those groups were among the biggest laggards during the fourth quarter's steep slide. Their reversal suggests that investors who were bracing for a sharp slowdown in U.S. economic activity have been soothed by cautious comments from the Federal Reserve, signs of strength in the labor market and data pointing to tepid inflation.

The Fed's statement Wednesday that interest-rate increases are on holdhelped ease investors' worries that higher rates would increase borrowing costs and curtail corporate profits. Cautious comments from central-bank officials including Chairman Jerome Powell throughout the month also fueled the stock rally.

Despite a mixed performanceThursday, the Dow Jones Industrial Average and the S&P 500 both closed with their biggest monthly gains since October 2015. The blue-chip index's 7.2% rise was its best January performance since 1989, while the S&P's 7.9% advance marked its best start to the year since 1987.

Both gauges are around their highest levels since early December, lifted by renewed confidence that the U.S. economy will keep powering ahead.

"Our view is through our customers, and this strongly supports a solid growth view," Bank of America Corp. Chief Executive Brian Moynihan said on the company's Jan. 16 earnings call.

Shares ofBank of Americaclimbed 16% in January. Citigroup Inc. rallied 24%, while Goldman Sachs Group Inc. rose 19%. Regional banks such as SunTrust Banks Inc. added more than 15% for the month.

Banks were among the worst performers during the fourth quarter's stock rout, but remarks from central-bank officials about remaining patient in raising rates and shrinking the Fed's balance sheet have sparked the turnaround.

"The flexibility that the Fed has telegraphed buys us a little more time to perhaps prolong this cycle," said Wasif Latif, head of global multiasset investing at USAA Asset Management. "This is more a reaction to interest-rate policy as opposed to economic data clearing the path for the market. That's still up in the air."

To be sure, indicators used by investors to monitor the strength of the domestic economy have also stabilized. That has helped to spur the rally in small-cap companies, which are more concentrated in the financial, industrial and energy sectors. Shares of battered industrial and energy companies also powered the market rally in January.

The gap between short- and long-term Treasury yields, known as the yield curve, has widened from its December lows, indicating investors feel more confident about the economic outlook. A steepening yield curve also tends to support financial stocks because banks often borrow money on shorter time horizons and lend with longer time frames.

Additionally, commodities including oil have recovered, cooling worries that materials vital to the transportation and manufacturing industries were signaling an immediate slowdown in U.S. demand. U.S. crude-oil prices are still 30% below October's multiyear highs. But they have risen back above the $50-a-barrel level that some analysts said signals sufficient demand, yet haven't climbed high enough for investors to fear a surge in inflation.

And the Citigroup economic surprise index for the U.S.—a measure of whether economic data are in aggregate exceeding expectations—recently turned positive for the first time in two months.

Even though investors will see U.S. earnings and economic-growth rates slow, "they are still going to be largely positive and supportive of equity returns," said Cliff Hodge, director of investments for Cornerstone Wealth. "The consumer is in a really strong position."

Analysts also said the temporary resolution to the partial government shutdown and recent stock-market rally should help measures of consumer confidence rebound. They are looking ahead to Friday's jobs report for the latest signals on the economy, as some remain concerned that continued wage growth, a measure of inflation, could give the Fed more leeway to keep steadily raising interest rates.

Some investors had feared higher borrowing costs would threaten corporate profits, but companies in the S&P 500 have so far reported a stronger-than-expected 12% jump in fourth-quarter earnings from a year earlier, FactSet data show. Although that clip is expected to fall this year, small-cap companies are still projected to post double-digit profit gains throughout 2019.

Although lukewarm economic activity in Europe and China has clouded the outlook for global growth and hurt multinational corporations reliant on trade flows, even larger manufacturers have said U.S. demand is still steady. Shares of Whirlpool Corp. rose 9.7% Tuesday, their biggest one-day percentage gain since October 2013, after the appliance maker reported that price increases offset raw-materials costs last quarter. North American results were particularly positive in terms of pricing, CEO Marc Bitzer said on the company's earnings call.

"We were kitchen-sinking every possible worst-case scenario going into the end of the year," said Amanda Agati, co-chief investment strategist at PNC Financial Services Group. "Now, we're seeing the results come out and saying, 'Oh, that's not quite as bad as we thought.'"

Still, some analysts expect weakness overseas to hurt the U.S. economy moving forward, particularly if trade negotiationsdon't yield progress.

Companies more reliant on Chinese consumption of materials and products, including Apple Inc., continue to lag behind the broader market. Shares of the iPhone maker eked out a 5.5% rise in January, rallying Wednesday and Thursday even though it posted its first holiday-quarter decline in revenue and profit in more than a decade. Analysts cited low expectations before the report and optimistic comments from CEO Tim Cook on the company's earnings call.

"We are quite concerned about the slowdown in the global economy," said David Kelly, chief global strategist at J.P. Morgan Asset Management. "There's a lot of uncertainty, and that's slowing everything down."

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com

Document WSJO000020190131ef1v003s6

THE WALL STREET JOURNAL.

Today's Markets
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Dow Industrials Edge Lower on Sluggish Earnings; Blue chips and S&P 500 finish January with strong gains

By Jessica Menton
805 words
31 January 2019
05:27 PM
The Wall Street Journal Online
WSJO
English

A trio of disappointing earnings reports pulled the Dow Jones Industrial Average slightly lower Thursday, though the blue-chip index still logged its strongest January performance since 1989.

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DowDuPont, Visa and Microsoft tumbled in the wake of their reports, though corporate earnings season mostly has been better than feared.

With results in from 41% of the companies in the broad S&P 500, profits are on pace to rise nearly 12%, according to FactSet. Investors have largely cheered those numbers, helping equities recoup much of their losses from December.

Willie Delwiche, an investment strategist at Baird, said January's rally has been driven in part by December's stock-market rout, which created buying opportunities for investors in beaten-down corners of the stock market. Industrials and energy—two groups hit hard during the fourth quarter—were among the best-performing groups in the first month of the year, both up more than 11%.

"We've rebounded this month, but now the question becomes: Is this a bounceback as a prelude to a retest, or is this a prelude to actually establishing an uptrend?" he said, referring to investors' concerns that major indexes could still retest their Dec. 24 lows.

The Dow and the S&P 500 have risen roughly 15% from those troughs after teetering on the brink of a bear market, typically defined as a fall of at least 20% from a recent high.

On Thursday, the blue-chip index fell 15.19 points, or less than 0.1%, to 24999.67, putting its gains for January at 7.2%. The S&P 500 rose 23.05 points, or 0.9%, to 2704.10, while the tech-heavy Nasdaq Composite climbed 98.66 points, or 1.4%, to 7281.74.

The S&P 500 added 7.9% for the month, its strongest January performance since 1987. Meanwhile, the Nasdaq added 9.7%, its best percentage gain in January since 2001.

A major market overhang was at least temporarily removed Wednesday, when the Federal Reserve signaled interest-rate increases were on hold. The Fed's statement and cautious commentary from Chairman Jerome Powell boosted major indexes to levels not seen since early December.

Mr. Powell didn't say whether the Fed's next rate move was more likely to be an increase or a cut, reiterating that future decisions would "depend entirely on the data." The decision put nonfarm-jobs figures, due Friday, in particularly sharp focus.

Elsewhere, Wall Street was also waiting for updates on the outcome of the second day of high-level trade talks between Beijing and Washington, though some investors said they had low expectations.

In Thursday's action, DowDuPont led the blue-chip index lower, shedding $5.47, or 9.2%, to $53.81, after the seeds and chemicals company turned in revenue that disappointed investors.

David Marcus, chief executive at Evermore Global Advisors, which has roughly $1 billion in assets under management, said the firm has a position in DowDuPont based on long-term optimism ahead of the company's planned breakup this year.

"It's in periods of stress when you're going to find your best investment valuations," said Mr. Marcus, whose firm typically invests in distressed companies that have broken up or gone through restructuring. "We're taking our pain now in DowDuPont, but we're looking forward to the gain in the future."

Meanwhile, Microsoft fell 1.95, or 1.8%, to 104.43, after saying computer-chip shortages sliced expected sales of its Windows operating system in the last three months of 2018. Visa slipped 2.59, or 1.9%, to 135.01 as the card network warned growing political uncertainties could hurt consumer spending.

Elsewhere, Facebook shares jumped 16.27, or 11%, to 166.69, after posting a record quarterly profit, while Qualcomm slipped 65 cents, or 1.3%, to 49.52, after reporting a 20% quarterly revenue decline. And General Electric surged 1.06, or 12%, to 10.16, after the struggling conglomerate beat analysts' revenue estimates despite reporting another quarter of weak profits.

The yield on 10-year Treasurys fell to 2.631% from 2.694% Wednesday. Yields and prices move in opposite directions.

Elsewhere, the Stoxx Europe 600 fell less than 0.1%. In Asia, Hong Kong's Hang Seng rose 1.1% to hit a four-month high. Japan's Nikkei Stock Average advanced 1.1%

—David Hodari contributed to this article.

Write to Jessica Menton at Jessica.Menton@wsj.com

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