

# HUDSON ADVISOR SERVICES, INC

## OUR VIEW OF THE MARKET

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Volume 79

April 2019

We are always interested in the “Fear and Greed Index”, which tracks investor sentiment, as reported by CNN Money. It currently shows a “neutral reading” of 48 on a 0-to-100 scale. Basically, that means most investors are not bullish or bearish. They are just in between and expect the stock market to end the year at about its current levels. We share this sentiment at Hudson Advisors.

We certainly did enjoy the first quarter results. Looking back, the market seems to have been too dour in the fourth quarter of 2018 regarding the prospect of further interest rate increases and the fears of a “trade war” with China. The mood changed markedly in January when the Federal Reserve announced it was backing off its rate hikes previously planned for 2019. Investors were further buoyed by news that China and the U.S. would not reach a trade agreement that, even if not perfect, would reduce and not escalate trade tensions. The result was a classic V-shaped recovery in which the market regained its December losses.

We are now looking at a mix of good and bad news for the rest of 2019. We are not worried about imminent recession. The economy will continue to grow - albeit slower than in 2018. Corporate earnings will fall from their lofty heights in 2018. Stock prices in some sectors look rich after the 1Q gains. On the positive, corporations are boosting the market with aggressive effort at buying back their own stocks.

On balance, we expect the market to stay flat or move moderately higher in the months ahead. That expectation puts us in the “neutral” camp of analysts. Nonetheless, as always, we will look for pockets of opportunity for our Hudson Advisor clients.

### MARKET TRENDS

The accompanying chart summarizes stock and bond market prices for the first quarter of 2019. It was a gang buster quarter in the stock market and relatively more stable in the bond market.

**Equity Market:** The contrast between the last two quarters in the stock market is striking. The December rout in stock prices made 2018 the worst year for stock market performance since 2008. Then we saw the alleviation of concerns about interest rates and trade wars. The market moved steadily ahead since late January and the first quarter was the best three-month period for the S&P 500 since 2009. Stock prices continued to inch higher in the first week of April.

**Fixed Income Market:** The bond market was relatively stable in the quarter. The yield on the 10-year Treasury was 2.42% at the end of March versus 2.68% at the end of December. Prices did move slightly higher as the prospect of higher interest rates receded. (Yields move inversely to prices.)

### MAJOR MARKET INDEXES

	YTD Return
Dow Jones Industrials Composite PR	11.52
S&P 500 Index PR	13.07
Russell 2000 Index PR	14.18
NASDAQ Composite PR	16.49
EAFE Index NR	9.98
Barclays Aggregate Bond Index TR	2.11

source: Morningstar® as of March 31, 2019

### THE OUTLOOK

**The Economy:** We are now reaching the point where the current era of positive expansion in the U.S. Gross National Product is nearly 10-years old. Part of the nervousness last December was sparked by fear that we were on the verge of slipping into recession. That fear is now abated. The job market is extremely strong. Although job growth was disappointing in February, the statistics showed 196,000 new jobs created in March. The unemployment rate remains historically low at 3.8%. Most encouraging, wages are increasing faster than inflation. Hourly wages in March were 3.2% higher than a year

earlier. Higher wages strengthen consumer demand – which is a key driver in the U.S. economy.

But the economy is slowing compared to 2018 when the GDP increased nearly 3%. Most forecasters say the economy should expand by about 2% in 2019 – more comparable to most recent years. The 2018 rate is seen as a short-lived boost provided by the Trump tax cuts. The U.S. economy is also seen as hampered by the problems in Europe where most economies – notably Germany – are in recession. The uncertain outcome of the Brexit situation is also creating a big potential drag on both sides of the North Atlantic. In addition, the Chinese economy has slowed – which has global impact – even if trade tensions are easing. In brief, we are not looking at recession in 2019, but the pace of growth enjoyed in 2018 is over.

**The Market:** Corporate earnings are critical to the stock market outlook. As with the economy, those earnings will be less stellar this year than last year. The forecast for 2019 is that companies in the S&P 500 will grow about 10% in 2019 versus 20% in 2018. Analysts expect earnings to fall about 2% for the first quarter as companies start to report. It will be the first year since 2016 that corporate earnings have declined.

Stock prices were pushed higher in the first quarter. The forward 12-month P/E ratio for the S&P 500 is now 15.7 versus the 5-year average of 16.4 and the 10-year average of 14.6. It was 14.2 at the end of December. The earnings outlook does not offer much promise to lower that ratio again.

Thus, on balance, we think the market has seen its best months this year. We actually would be pleased to see the market just hold and not retreat from its first quarter gains.

At best, we think the S&P 500 might have potential to grow another 5% this year.

## OUR STRATEGIES

**Asset Allocation:** Normally, for clients investing new money, we recommend 65% allocation to equities and the remaining portion to cash, bonds with maturities under two years, and alternative investments. But in this environment, we may recommend a lower allocation to equities until the market direction is somewhat clearer.

**Suggested Allocation:** We remain focused on large cap companies with strong balance sheets, sustainable cash flows, and credible business models. Companies that pay attractive dividends are central to our strategy. Some of the sectors getting our attention:

**HEALTH CARE:** The larger uncertainties regarding national health care policy make us cautious about much of this sector. But we like select names in bio-technology and medical devices.

**TECHNOLOGY:** We are cautious about this sector – especially given the various issues in the big tech names – but areas such as communications equipment and semi-conductors have our interest.

**ENERGY:** Recovery is underway and the potential for upside movement is good.

**FINANCIALS:** Our focus is upon regional banks. Prices are reasonable for many of these bank stocks.

**EMERGING MARKETS:** Certain developing nations are enjoying recovery and have growth potential.

**Other Investments:** Our repeated aversion to bonds with long maturities remains firm. We prefer to find alternative investments such as real estate limited partnerships, demand notes, and municipal tax liens.

### Dow Jones U.S. Sectors Total Return (Percent Change for YTD, Ending March 31, 2019)

*Source: Morningstar®*

<b>Oil &amp; Gas</b>	<b>16.58</b>	<b>Consumer Services</b>	<b>13.39</b>
<b>Basic Materials</b>	<b>9.41</b>	<b>Telecommunications</b>	<b>8.67</b>
<b>Industrials</b>	<b>18.69</b>	<b>Utilities</b>	<b>10.80</b>
<b>Consumer Goods</b>	<b>12.84</b>	<b>Financials</b>	<b>11.74</b>
<b>Health Care</b>	<b>7.56</b>	<b>Technology</b>	<b>19.67</b>

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**Top 25 Performing Stocks 2019 (3/31/19) - US Listed companies with a market cap above \$5 Billion. Source Telemet®**

Issue	Name	Last	Mkt Cap	Net Pct YTD (%)	Industry Group
FNMA	Fannie Mae	\$2.69	\$15,414.00	153.77	Thriffs and Mortgage Finance
ROKU	Roku, Inc. Class A	\$69.42	\$7,578.00	126.57	Household Durables
AKTX	Akari Therapeutics Plc ADR	\$3.36	\$5,136.00	114.01	Pharmaceuticals
STNE	StoneCo Ltd. Cl A	\$39.05	\$8,663.00	111.77	Health Care Providers & Services
SE	Sea Ltd ADR	\$23.69	\$8,064.00	109.28	Software
SNAP	Snap Inc	\$11.19	\$14,484.00	102.99	Communications Equipment
SID	Companhia Siderurgica ADR	\$4.38	\$5,944.00	100	Metals & Mining
HUYA	HUYA INC	\$28.65	\$9,003.00	85.08	IT Services
VSM	Versum Materials	\$50.33	\$5,492.00	81.57	Semiconductors and Semiconductor Equipment
ZS	Zscaler, Inc.	\$70.84	\$8,695.00	80.67	IT Services
MELI	MercadoLibre, Inc.	\$522.85	\$23,634.00	78.54	IT Services
MDB	Mongodb, Inc.	\$146.72	\$7,897.00	75.21	Software
ARRY	Array BioPharma Inc	\$24.92	\$5,439.00	74.9	Biotechnology
GWPH	GW Pharmaceuticals Plc ADS	\$169.64	\$62,166.00	74.19	Pharmaceuticals
TTD	Trade Desk, Inc.	\$201.00	\$8,859.00	73.19	IT Services
COTY	Coty, Inc.	\$11.28	\$8,470.00	71.88	Personal Products
MOMO	Momo Inc. ADS	\$40.70	\$8,408.00	71.35	Software
OLED	Universal Display Corp	\$157.80	\$7,434.00	68.64	Semiconductors and Semiconductor Equipment
LOXO	Loxo Oncology, Inc.	\$234.66	\$7,184.00	67.53	Biotechnology
XRX	Xerox Corporation	\$32.99	\$7,579.00	66.95	Technology Hardware, Storage & Peripherals
CTRP	Ctrip.com Intl Ltd ADS	\$45.14	\$24,002.00	66.81	Internet & Direct Marketing Retail
W	Wayfair Inc Class A	\$148.65	\$13,543.00	65.02	Internet & Direct Marketing Retail
SAGE	Sage Therapeutics, Inc.	\$157.50	\$7,417.00	64.42	Biotechnology
ETTX	Entasis Therapeutics Holdings	\$6.65	\$5,763.00	63.39	Pharmaceuticals
CMG	Chipotle Mexican Grill	\$703.35	\$19,454.00	62.89	Hotels Restaurant & Leisure

**Bottom 25 Performing Stocks 2019 (03/31/19) - US Listed companies with a market cap above \$5 Billion. Source Telemet®**

Issue	Name	Last	Mkt Cap	Net Pct YTD (%)	Industry Group
SWDBY	Swedbank AB Sponsored ADR	\$14.66	\$16,365.00	-34.52	Banks
CPFH	Capital Financial Holdings	\$875.00	\$18,217.00	-32.17	Capital Markets
ESALY	Eisai Company Ltd	\$56.75	\$16,173.00	-27.48	Pharmaceuticals
PCG	PG&E Corporation	\$17.62	\$9,296.00	-25.81	Multi-Utilities
KHC	The Kraft Heinz Company	\$32.59	\$39,735.00	-24.29	Food Products
FOX	Fox Corporation Class B	\$36.22	\$28,922.00	-24.19	Media
FOXA	Fox Corporation Class A	\$36.91	\$40,443.00	-23.3	Media
HSIC	Henry Schein Inc.	\$60.51	\$9,257.00	-22.94	Health Care Providers & Services
BIB	Biogen Inc.	\$233.49	\$45,930.00	-22.41	Biotechnology
BNDSY	Banco De Sabadell SA	\$1.90	\$5,288.00	-22.13	
CTL	CenturyLink, Inc.	\$12.26	\$13,243.00	-19.05	Diversified Telecommunication Services
DTSRF	Digital Shelf Space Corp	\$0.18	\$9,571.00	-18.52	
M	Macy's Inc.	\$24.38	\$7,495.00	-18.15	Multiline Retail
CVS	CVS Health Corporation	\$53.93	\$69,945.00	-17.7	Health Care Providers & Services
NWL	Newell Brands Inc	\$15.40	\$6,509.00	-17.19	Household Durables
QRTEA	Qurate Retail, Inc. Series A	\$16.36	\$7,346.00	-16.19	Internet & Direct Marketing Retail
IRS	IRSA Inversiones Rep	\$11.09	\$6,421.00	-15.08	Real Estate Management & Development
CI	Cigna Corporation	\$161.38	\$39,302.00	-15.03	Health Care Providers & Services
ICAGY	International Consol. Airlines	\$13.27	\$29,088.00	-14.83	
TSLA	Tesla, Inc.	\$286.34	\$49,457.00	-13.96	Automobiles
ABMD	Abiomed Inc.	\$280.44	\$12,644.00	-13.72	Health Care Equipment & Supplies
KT	KT Corporation	\$12.38	\$6,462.00	-12.97	Diversified Telecommunication Services
ABBV	AbbVie Inc.	\$80.63	\$118,929.00	-12.54	Biotechnology
EDHD	Edd Helms Group Inc	\$700.00	\$7,990.00	-12.5	Communications Equipment
WF	Woori Bank	\$37.22	\$8,350.00	-11.63	Banks