BUCKINGHAM
CAPITAL MANAGEMENT
Registered Investment Advisor

Market Insights

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January's stellar 8% total return for the S&P 500 was a welcome rebound following the year-end statement shock of a very tough December. Equities have continued to post positive returns month-to-date all while investor attention has been focused on an expanding list of concerns. Top among these are the China trade talk deadlines, the resolve of the Federal Reserve, moderating U.S. economic data and slowing growth overseas. The government shutdown/border battle and eventual path of Brexit also added to the unease. Recent news regarding China has brought some relief, but with all the attention on what could go wrong, it may not come as a surprise that individual investor bullish sentiment is below average. What may be surprising, however, is that as of yesterday's close, the S&P 500 has logged the best start to a year since 1991 and one of the top ten best starts in the history of the index!

Now we can add, "are we going from oversold in December to overbought today?" to our list of worries. I would argue that although stock prices have risen off their December lows, valuations are not yet overextended. Fourth quarter sales and earnings reports have been robust, but this is the last quarter we are likely to see double digit, quarter-over-quarter percentage growth in earnings. Going forward, the corporate tax cut benefits that started a year ago will no longer show up as a large boost to earnings when compared to the previous year's quarter. This was reflected already in the lower estimates for 2019 earnings growth. However, since October, some of the worries mentioned earlier have led companies and analysts to sharply cut their already lowered earnings forecasts for this year.

While global growth has moderated, it has not disappeared. U.S. growth is expected to be lower than last year, but still positive, and recessionary signals remain subdued. Risks and concerns always deserve watching, but at present, economic growth still appears intact. If this is so, future earnings may surprise to the upside, and current equity values may be reflecting a grimmer picture than necessary.

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