Weekly Market Review

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Better-than-expected first-quarter GDP growth, better-than-expected first quarter earnings from U.S. companies, and optimism surrounding a coming trade deal between the U.S. and China are all ingredients for fresh all-time highs for U.S. stocks. The S&P 500 is now up an impressive 18.0% year-to-date, and an even more impressive 25.0% from December 24th, which marks the recent low. International and emerging market stocks are not too far behind with the MSCI EAFE (international developed) and the MSCI Emerging Market (international emerging) indices up 12.7% and 12.1% respectively.

Preliminary estimates of U.S. GDP growth for the first quarter came in at 3.2% which far outstripped the expected consensus estimate of 2.2%. Rising inventories and improved foreign trade were cited as the main contributors. This figure will go through revisions as more data becomes available and may end up lower. However, at least one thing is clear; the economy was not significantly affected by the five-week Federal Government shutdown that ended in late January.

Going into earnings season, analysts were expecting a 2.0% decline in earnings from the first quarter of 2018. The expected decline wasn't due to a deteriorating business environment, but rather "noise" in earnings data as the effects of corporate tax cuts that began last year work their way through the system. Now that half of the S&P companies have now reported with positive surprises, rather than a 2% decline, analysts are now expecting earnings to be about flat.

U.S. trade negotiators are returning to Beijing next week to continue trade talks with China. The next round of meetings is scheduled for the following week back in Washington. Chinese President Xi Jinping recently spoke at a summit and alluded to the Chinese addressing the more challenging areas of a deal, specifically, opening China's markets to international competition, improving intellectual property rights, boosting imports, and refraining from currency devaluations.

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