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MARKET MATTERS: Markets trend up despite unsettling international economic news


Joseph Matthews

(Photo in print editions only)

The Dow Jones Industrial Average continued to trend toward all-time highs over the past week or so, even breaking the 18,000 mark on Monday for the first time since July 2015. But as with any market movements, there were also occasional setbacks this week.

The favorable stock market news aside, the news in Connecticut has not been quite so rosy.

The latest jobs report from the Connecticut Department of Labor remained essentially flat, with jobs in the construction sector declining slightly despite the favorable weather. The seasonally adjusted unemployment rate for Connecticut increased to 5.7 percent, up two-tenths of a percent from the 5.5 percent unemployment rate in February.

On the national level, however, the employment situation seems to be improving. Recent jobless claims data showed a decrease in the number of Americans filing for unemployment. In fact, the level reached in early March was the lowest since November 1973.

The Connecticut Business and Industry Association suggests that, taken together, the state and federal reports are indicators that Connecticut continues to deal with a changing economic foundation. The state added an estimated 15,000 new jobs in the past year, but only 800 were in manufacturing and a miniscule 100 in finance and insurance, or sectors where higher paying jobs typically are found. Conversely, the leisure and hospitality sector added 4,600 jobs in the last year while trade, transportation and utilities added 3,900.

For investors, however, the strong market performance in recent days is a good sign of continued national recovery, keeping in mind, of course, that past performance is not an indicator of future results.

Last week, the market also appeared to contradict a widely held belief that stock prices trend with oil prices. Oil certainly has had its ups and downs over the past two weeks, although it now appears to have stabilized in the $40 per barrel range. But, taking into account the market performance on some of the days when oil prices declined, suggests to me that there is now a broader sense of investor confidence, another positive for equities.

There are myriad factors at work determining the global price of oil. Some of the factors that typically would drive prices up are seemingly being offset by others that keep it stable or even gently ease prices downward.

For instance, oil prices tumbled recently when the world's major oil producers could not agree on a plan to freeze production. But a potentially deeper decline was likely offset by a strike in the Kuwaiti oil industry that shut down more than 60 percent of the nation's crude output.

And even though there is the appearance of market confidence, there still is evidence of some jitters. Investors have been, and will continue looking toward quarterly earnings as indicators for the health of the economy and direction of the markets.

If there is one uncertainty that is less daunting to investors presently than it was a few months back, it would be the status of interest rates as controlled by the Federal Reserve. Recent signals from the Fed have indicated that there is little likelihood of an immediate rate hike due to the modest pace of domestic growth and the struggling global economy.

Although more rate increases are possible for this year, most analysts agree the earliest rate hike would be in June. The Fed likely will continue to take a cautious approach and avoid any undue signals of urgency.

Overall, my outlook is cautiously optimistic. Events nationally and globally require us to remain vigilant and on the alert, but as the positives from a somewhat weaker U.S. dollar, a more stable China and a recovery in the industrials sector become more apparent, investors might well consider adding to investments in U.S. large cap equities, particularly in financial and industrial sectors.

Joseph Matthews is a Financial Advisor with the Global Wealth Management Division of Morgan Stanley on Post Road in Fairfield. He can be reached at 203-319-5165 or by email at joseph.matthews@morganstanley.com. *The information contained in this column is not a solicitation to purchase or sell investments. Any information presented is general in nature and not intended to provide individually tailored investment advice.*