Weekly Market Recap
December 17, 2018

Index	Close	Return Week	Return YTD
Dow Jones Industrial Average	24,101	-1.2%	-2.5%
S&P 500 Index	2600	-1.3%	-2.8%
NASDAQ	6911	-0.8%	0.1%
Russell 2000 Index	1411	-2.6%	-8.1%
MSCI EAFE Index	1773	0.3%	-13.5%
10-yr Treasury Yield	2.89%	0.04%	0.48%
Oil ($/bbl)	$51.22	-2.6%	-15.2%
Bonds*	$105.56	0.1%	-1.0%

Source: Bloomberg, 12/14/18.

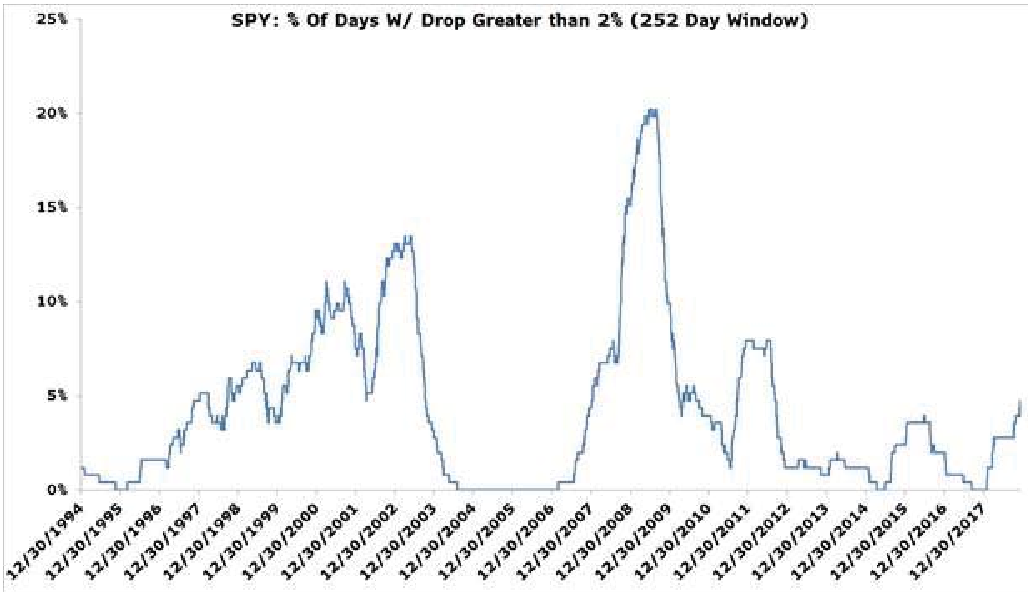
*Bonds represented by the iShares U.S. Aggregate Bond ETF.

<u>Last Week:</u>

U.S. Equity Markets

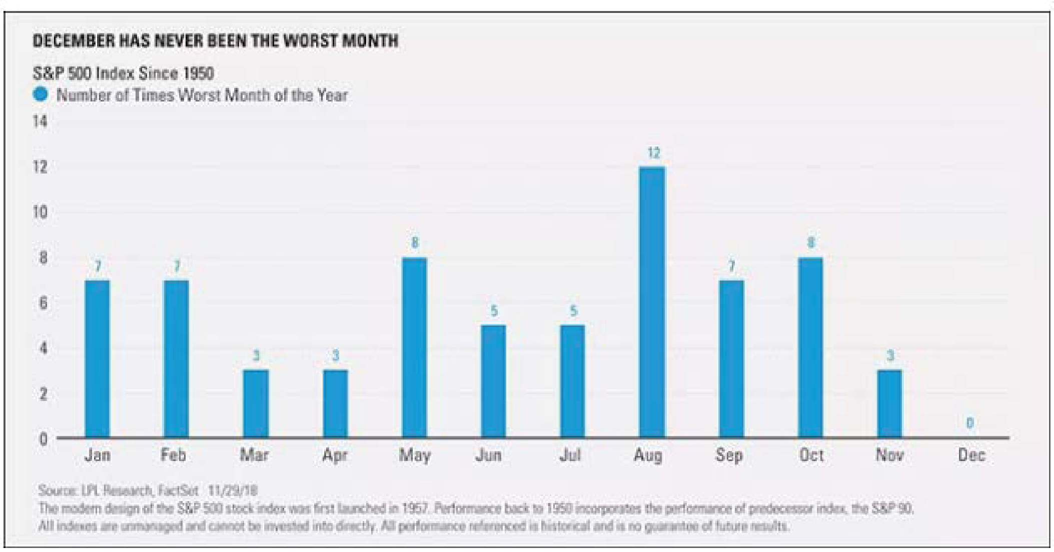
- U.S. large cap equities (S&P 500 Index) declined -1.3% this week after suffering their biggest weekly pullback of 2018 in the prior week as the ongoing U.S. trade dispute with China, weaker Chinese economic data, Brexit concerns, looming U.S. government shutdown, and Trump-related legal scrutiny weighed on markets. According to EPFR Global, U.S. equities saw outflows of $27.7B this week, the second-biggest withdrawal on record, only behind the $33B that was pulled out during the February decline. According to Lipper, investors withdrew a record $46 billion from U.S. equity funds for the week ended Wednesday, while adding $81 billion to money market funds (most since 1992) – closing the barn door after the horse has left town?
  - Utilities (+0.65%) and Communication Services (+0.5%) outperformed as investors favored defensive stocks with stable yields
  - Information Technology (0.0%) outperformed led by Broadcom (+11.5%), and L3 Technologies (+7.0%)
  - Consumer Staples (-0.6%), Materials (-1.1%), and Consumer Discretionary (-1.2%) outperformed
  - REITs (-1.9%), Healthcare (-1.9%), and Industrials (-1.5%) underperformed
  - Energy (-3.3%) underperformed as oil fell 2.6%
  - Financials (-3.5%) significantly underperformed as banks extended their recent selloff on yield curve inversion concerns and slowing global economic risks
- The Dow Jones Industrials declined -1.2%, led by **Johnson & Johnson** (-8.6%), Goldman Sachs (-3.8%), **Walgreens Boots Alliance** (-3.0%) and JP Morgan Chase (-2.9%)
- Small-cap equities underperformed U.S. large caps as the Russell 2000 Index fell -2.6%
- The technology-heavy Nasdaq Composite Index (-0.8%) outperformed the S&P 500 Index, led by Broadcom (+11.5%), **JD.com** (+5.9%), **O'Reilly Automotive** (+5.0%) and Facebook (+4.8%)

- According to Bloomberg, there have already been six days this quarter when stocks have completely reversed an intraday move of at least 1%, the most since 2011
- Here's a longer-term view of volatility, which helps put 2018 in perspective



Source: Jefferies

- The S&P 500 is off to its worst start to a December since 1980, down 5.8% in the first half of the month. That said, December has never been the worst month of the year (at least since 1950)



Source: LPL Reaserch

- Little wonder investor sentiment is quite poor. The American Association of Individual Investors reporting just 21% of its respondents are bullish, the lowest level since May 2016. Meanwhile, the percentage of respondents that identify as bearish was the highest since mid-2013. Such surveys historically have proven to be decent contrary indicators

Source: Bespoke

- There have only been 9 other fourth quarters down 10%+, which has historically been followed by challenging first quarter returns for the S&P 500 Index

S&P 500 Down 10%+ in Q4

Qtr	Q4 % Chg	Q1 % Chg	Next Year % Chg
Q4 1929	-28.88	17.20	-28.48
Q4 1930	-17.48	8.80	-47.07
Q4 1931	-16.37	-9.98	-14.78
Q4 1932	-14.36	-15.46	44.08
Q4 1937	-23.33	-19.43	24.55
Q4 1941	-14.80	-7.83	12.43
Q4 1973	-10.03	-3.66	-29.72
Q4 1987	-23.23	4.78	12.40
Q4 2008	-22.56	-11.67	23.45
Q4 2018	-10.38	?	?
	Average	-4.14	-0.35
	Median	-7.83	12.40

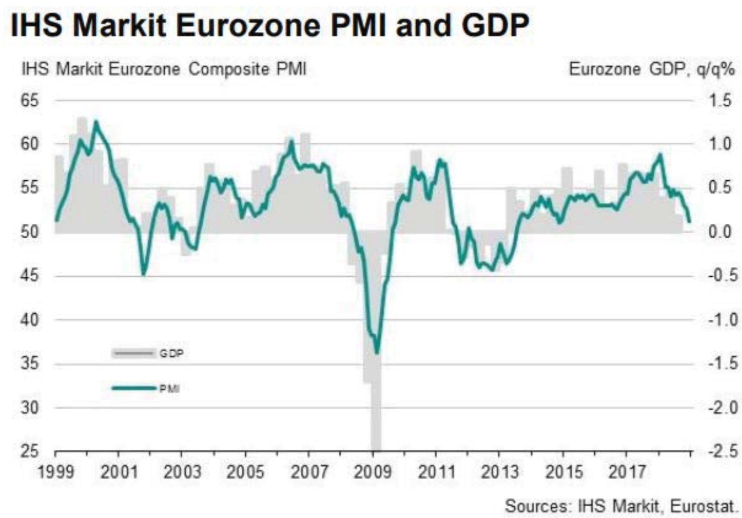
Source: Bespoke

- Valuation is a blunt instrument, but stocks are trading at their cheapest levels in nearly three years, as measured by P/E

International Markets and News

- European equities (STOXX Europe 600) rose +0.5%, but the Euro lost ground against the U.S. Dollar as the European Central Bank (ECB) ended its monthly bond-buying program and left its key lending rates unchanged. A lack of support for UK Prime Minister Theresa May's Brexit deal saw her leadership weakened further and heighted the risk of further uncertainty ahead.
    - Utilities (+3.6%), Information Technology (+2.0%), Basic Resources (+2.2%), Healthcare (+1.1%) and Auto & Parts (+0.7%) outperformed. Retail (-2.0%), Insurance (-0.4%), Personal & Household Goods (-0.2%) and Real Estate (-0.1%) underperformed
    - Brexit uncertainty escalated as UK PM May decided to postpone her Brexit deal vote leading to her own party conducting a confidence vote for her leadership, which she won by a margin of 200 to 117. May suffered a further setback when European Monetary Union leaders rejected her request for a formal renegotiation of the deal to apply a hard time limit to the "Irish backstop." She is planning to hold another meaningful vote before January 21st
    - As expected, the ECB left its key policy rates on hold and announced that Quantitative Easing (QE) will end this month. The ECB maintained guidance on rates until at least the end of summer 2019 and bond reinvestment was effectively open-ended. President Draghi said that the ECB would work on determining whether more liquidity was needed, which raised expectations that more cheap loans would be provided in the first quarter of 2019
    - Italy and the EU moved closer to a budget agreement after Italian Prime Minister Conte met with EU President Juncker and proposed a 2019 deficit target of 2.04%, but the EU is reportedly looking for further savings of 0.1% of GDP to bring the deficit just under 2%. Finance Minister Tria presents the final details to Parliament on Monday. With a budget deal close, Italian Bond yields fell 20 basis points to 2.94%

- French President Macron announced a series of tax measures in response to another weekend of protests, which may lift France's 2019 budget deficit above 3%, breaching EU rules
- Germany's finance ministry reportedly is willing to orchestrate a merger between Deutsche Bank and Commerzbank in order to fix Deutsche Bank, but analysts warned that restricting programs of both lenders might not produce the necessary effects fast enough to contend with the next economic downturn
- The Eurozone's PMI fell to 51.3 in December, a 4-year low

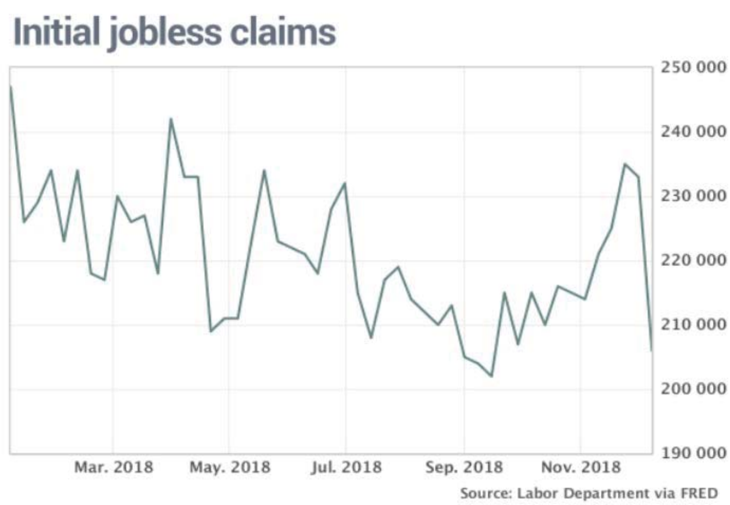


- Chinese markets advanced (Shanghai Composite Index +0.4%) during the week as signs of a potential thaw in U.S.-China trade relations outweighed data showing that China's economic slowdown deepened last month
  - Chinese markets rose early in the week when China's cabinet considered slashing tariffs on U.S. auto imports and that a Canadian court freed on bail a prominent telecom executive
  - Chinese stocks slumped Friday, after Beijing reported that industrial output and retail sales weakened more than expected in November. Industrial production slowed to its lowest point since early 2016, while retail sales fell to their lowest growth rate in more than 15 years
  - Despite a China spokesman's statement that China is on track to meet its GDP growth target of 6.5%, Friday's data suggested that U.S. trade tensions and Beijing's ongoing campaign to deleverage its financial system were reducing domestic demand
- Japanese equities fell (Nikkei 225 Index -1.4%) during the week as Japan's third quarter GDP decline was revised from -1.2% to a much larger contraction of -2.5%, potentially implying that U.S.-China trade concerns are having negative impacts of growth worldwide
  - Weather-related disasters contributed to the GDP decline, and most economists believe that the overall trend of Japan's economic growth remains intact
  - The Bank of Japan (BoJ) said in July that it might adjust its purchases of exchange-traded funds (ETFs) based on market conditions, suggesting that the BoJ may cut back on its ETF buying, but on Thursday the BoJ surpassed the previous year's total in an effort to offset selling by overseas

investors. Unlike bonds, which must be redeemed at maturity, ETFs can remain on the bank's balance sheet indefinitely
    - The Japanese and EU Parliaments ratified the Economic Partnership Agreement (EPA), which will create an open trading zone covering 635M people and almost one-third of the world's GDP. The agreement may be in force by February 2019, and removes tariffs on Japanese cars and auto parts as well as EU beef, chocolate, cheese, and wines. It also opens markets for Financial, Telecom, E-commerce, and Transport

U.S. Economic and Political News

- Economic data was mixed:
    - The Producer Price Index ticked up 0.1% in November, while core PPI (excludes volatile food and energy components) rose 0.3%. On a year-over-year basis, headline PPI has climbed 2.5%, while core PPI is 2.8% higher
    - The Consumer Price Index was flat in November, matching Street consensus, while core CPI rose 0.2%, also in-line with Street expectations. On a year-over-year basis, consumer inflation rose 2.2%, both on a headline and core basis
    - November Retail Sales gained 0.2%, matching consensus forecasts
    - IHSMarkit's Purchasing Managers Index fell to 53.9 in its flash December reading from 55.3 in November, marking a 13-month low
    - Weekly Jobless Claims printed 206,000, reversing their recent upward turn



- Michael Cohen (President Trump's former lawyer) pled guilty to campaign-finance violations related to payments he arranged during the 2016 election to silence two women who claimed they had romantic encounters with Trump

Commodities

- WTI crude fell 2.6% for the week after rising nearly 3% in the previous week. It is now down 15% for 2018

This Week:

- On Monday, global equities are in the red with no significant news driving markets
- The Federal Reserve (Fed) is expected to raise the short-term Fed Funds rate by 25 basis points to 2.25-2.50% on Wednesday, which would be the 4th hike of 2018
  - Investors will likely be more interested in the Fed's commentary and outlook for rate increases in 2019
- U.S. earnings calendar will see a slight uptick in volume, but the main focus will be on the Federal Reserve's Wednesday meeting
  - Monday: Oracle
  - Tuesday: FedEx, Darden Restaurants, Micron, Jabil
  - Wednesday: General Mills, Paychex
  - Thursday: **Walgreens**, **Accenture**, Conagra, **Carnival**, Cintas, Nike
  - Friday: **Carmax**
- U.S. economic data:
  - Monday: Empire State Manufacturing index (Dec), NAHB Housing Market (Dec), Net Long Term Tic Flows (Oct)
  - Tuesday: Building Permits (Nov), Housing Starts (Nov)
  - Wednesday: Current Accounts Q3, Existing Home Sales (Nov), FOMC Economic projections, Fed interest rate decision
  - Thursday: Philly Fed Manufacturing index (Dec), CB Leading Indicators (Nov)
  - Friday: Durable Goods Orders (Nov), PCE Price Index (Nov), GDP Growth Rate (Q3), GDP Price Index (Q3), Michigan Consumer Sentiment (Dec), Kansas Fed Manufacturing Index (Dec)
- International economic data:
  - Monday: Euro-zone: CPI (Nov), Trade Balance (Oct); UK: CBI Industrial Trends (Dec)
  - Tuesday: Germany: lfo current conditions / climate / expectations (Dec)
  - Wednesday: Germany: PPI (Nov) UK: PPI (Nov), CPI (Nov), Retail price index (Nov), CBI Industrial trends (Dec); Japan: Trade Balance (Nov)
  - Thursday: Euro-zone: Current Account (Oct); UK: BoE Interest rate decision, GfK consumer confidence (Dec), Retail Sales (Nov); Japan: BoJ Interest Rate Decision, All Industry activity Index (Oct)
  - Friday: Euro-zone: Consumer Confidence Flash (Dec); Germany: GfK Consumer Confidence (Jan) Import prices (Nov); UK: Current Account (Q3), GDP Growth Rate (Q3), Public Sector Net Borrowing (Nov), Business investment (Q3); Japan: CPI Core (Nov)

Next Week:

- U.S. stock markets will close at 1pm next Monday, enabling some last-minute Christmas shopping on Christmas Eve Day, though the early end to the day may impact the publication and distribution of our Weekly Market Recap . Markets will remain closed all day Tuesday, and reopen Wednesday
- In the meantime, please accept our best wishes for a happy and healthy holiday season!

As always, thank you very much for your interest in our thoughts and support of our services

Whitney Stewart, CFA®
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