Weekly Market Recap
January 2, 2019

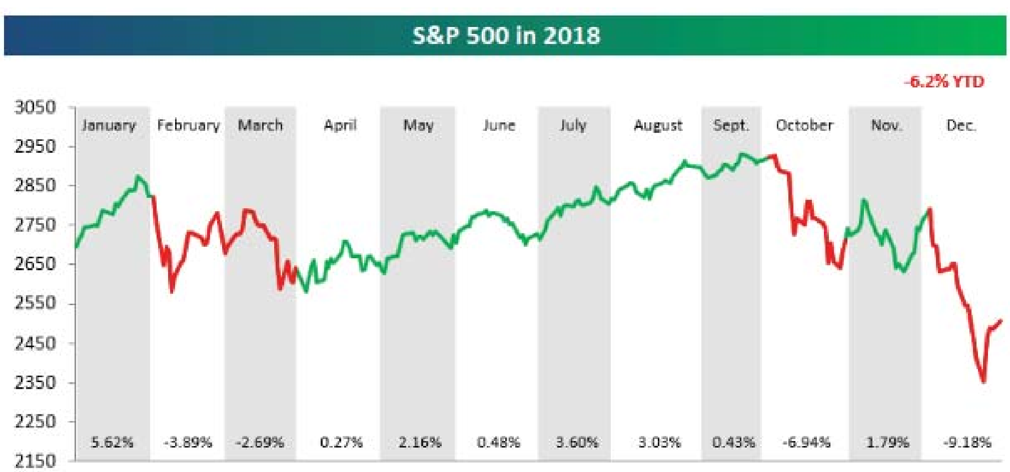
		Total Return	
Index	**Close**	**Week***	**2018****
Dow Jones Industrial Average	23,327	2.7%	-5.6%
S&P 500 Index	2,507	2.9%	-4.4%
NASDAQ	6,635	4.0%	-2.8%
Russell 2000 Index	1,349	3.6%	-11.0%
MSCI EAFE Index	1,720	0.0%	-9.7%
10-yr Treasury Yield	2.68%	-0.01%	0.28%
Oil ($/bbl)	$45.41	-1.1%	-25.0%
Bonds*	$106.49	0.4%	0.1%

Source: Bloomberg.
*Week ending 12/28/18
**Year ending 12/31/18
***Bonds represented by the iShares U.S. Aggregate Bond ETF

<u>Full Year 2018 and Last Week:</u>

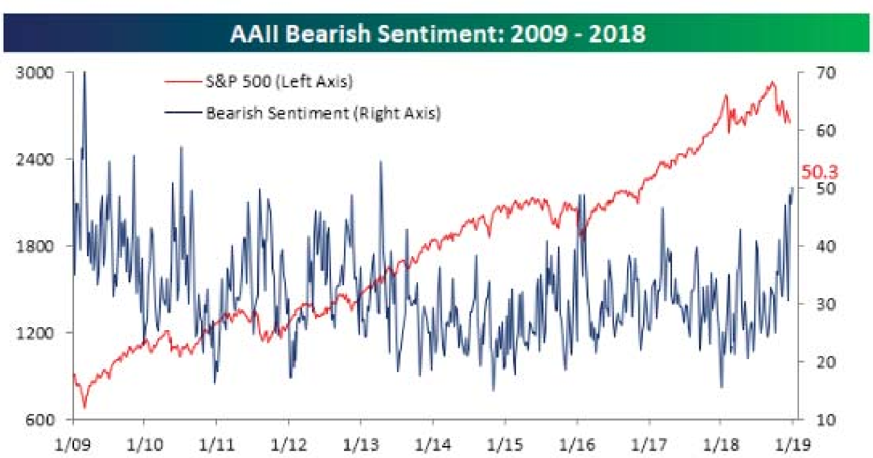
U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) rallied +2.9% in the last week of the year, but finished the year 2018 with a -4.4% total return, generating the first negative calendar year since 2008. The S&P 500 Index started with a robust gain in January, then declined in February and March, followed by steady increases from April through September. The fourth quarter brought significant volatility with a 6.9% decline in October, and another drop of 9.2% in December. The return to higher volatility was likely due to the Federal Reserve's tightening monetary policies, reduced global growth expectations, U.S./China trade concerns, Brexit fears, and Italian/EU relationship worries



*Price Return of S&P 500 in 2018
Source: Bespoke

- For the year, Healthcare and Utilities were the only sectors that generated positive returns, while Energy and Materials significantly underperformed
  - Healthcare (+5.2%), and Utilities (+5.0%) significantly outperformed as investors favored defensive stocks, particularly in the fourth quarter
  - Consumer Discretionary (-0.7%) outperformed partially due to **Amazon's** robust outperformance during the first nine months
  - Real Estate (-1.6%) outperformed as interest rates declined in the last few months of 2018
  - Information Technology (-1.7%) outperformed as investors favored higher valuation, faster growing companies for the first nine months
  - Consumer Staples (-7.1%) underperformed
  - Communications Services (-12.7%), underperformed as a shift in investor sentiment away from higher valuation growth stocks led to significant declines in the last quarter for several leaders in the sector
  - Financials (-13.0%) underperformed as the yield curve flattened
  - Industrials (-14.0%) and Materials (-16.0%) underperformed on reduced expectations for global growth
  - Energy (-19.5%) was the worst performing sector due to the price of oil falling nearly 25%
- The Dow Industrials rose +2.7% for the week, but fell -5.6% for the year and underperformed the S&P 500 Index
- Despite a strong final week of the year for small-cap equities (+3.6%), the Russell 2000 Index fell -11.0% for the year, and underperformed U.S. large caps
- The technology-heavy Nasdaq Composite Index (+4.0%) outperformed the S&P 500 Index during the week and for the year (-2.8%) as investors favored higher valuation growth stocks during the first nine months of the year
- Bearish sentiment exceeded 50% for the first time in five years, according to AAII data



Source: Bespoke

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- Despite the current bearish sentiment, a recent *Barron's* 2019 outlook noted that the mean gain across 10 market strategists surveyed showed the S&P 500 ending next year at 2,975, a +19% gain for 2019 (and a 14% gain from when the article was published)
- History suggests the S&P 500 Index generates positive returns over the next quarter, two quarters and year following 10%+ down quarters since World War II

S&P 500 10%+ Down Quarters Post WWII

Quarter	% Chg	Next Qtr %	Next 2 Qtrs %	Next Year %
9/30/1946	-18.83	2.27	1.40	1.00
9/30/1957	-10.45	-5.73	-0.75	18.01
6/29/1962	-21.28	2.78	15.25	26.70
6/30/1970	-18.87	15.80	26.72	37.10
12/31/1973	-10.03	-3.66	-11.84	-29.72
9/30/1974	-26.12	7.90	31.19	32.00
9/30/1975	-11.89	7.54	22.53	25.48
9/30/1981	-11.45	5.48	-3.63	3.65
12/31/1987	-23.23	4.78	10.69	12.40
9/28/1990	-14.52	7.90	22.60	26.73
9/30/1998	-10.30	20.87	26.49	26.13
3/30/2001	-12.11	5.52	-10.29	-1.12
9/28/2001	-14.99	10.29	10.23	-21.68
6/28/2002	-13.73	-17.63	-11.11	-1.55
9/30/2002	-17.63	7.92	4.04	22.16
12/31/2008	-22.56	-11.67	1.78	23.45
3/31/2009	-11.67	15.22	32.49	46.57
6/30/2010	-11.86	10.72	22.02	28.13
9/30/2011	-14.33	11.15	24.49	27.33
12/26/2018	-13.97	?	?	?
	Average	5.13	11.28	15.94
	Median	7.54	10.69	23.45
	% Positive	78.9%	73.7%	73.7%

Source: Bespoke

International Markets and News

- European equities (STOXX Europe 600) ended flat for the week, but down over -12% for the year as ongoing concerns over the global growth outlook, developed market monetary policy tightening, Brexit fears and Italian debt fears weighed on markets. On a positive note, the lower chamber of the Italian Parliament approved a 2019 national budget on Saturday night (12/29/18)
  - Italy settled for the compromise figure of a 2.04% budget deficit, reducing spending by almost $7 billion to meet the lower threshold
  - During the Christmas period, British Prime Minister Theresa May failed to win any concessions from EU leaders, prompting a video message released late New Year's Eve encouraging

  - Parliament to back the deal, and then "Britain can turn a corner." MPs will resume debating May's proposed Brexit deal on January 9th, with the vote to take place the following week
  - The European Central Bank's (ECB) regular economic bulletin largely reflected the policy statement earlier in the month, which highlighted that recent incoming information has been weaker than expected
- Chinese markets fell (Shanghai Composite Index) -0.9% during the final week of trading, bringing its 2018 loss to roughly -25%, making it the world's worst-performing major stock market for the year. Chinese stock market weakness was marked by an unprecedented trade war with the U.S. and mounting evidence of an economic slowdown
  - China reported industrial profits fell 1.8% in November from a year ago, reversing a gain in October, and marking the first decline in nearly three years
  - Tax revenues in China have slumped sharply in recent months

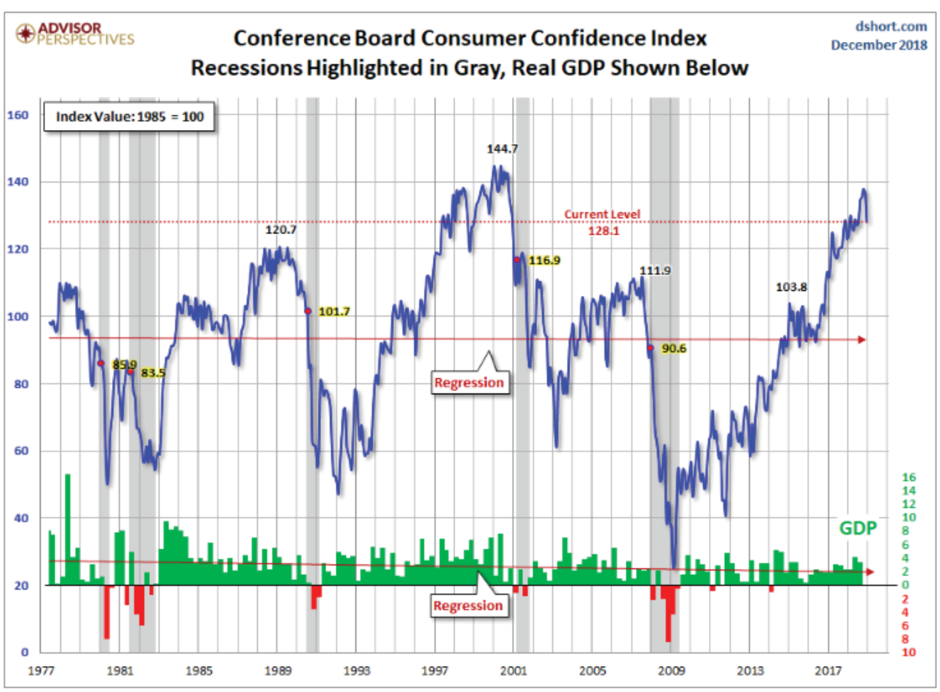
- Japanese equities fell -12% (Nikkei 225 Index) for the year 2018 as reduced global growth expectations, weakening Chinese economy, U.S.-China trade concerns, and rising U.S. interest rates weighed on markets
  - The yield on the 10-year Japanese government bond (JGB) dropped into negative territory during the week for the first time in 2018, but finished trading Friday just barely positive- with a yield of 0.001%
  - The Bank of Japan has a 0% yield target for the 10-year JGB, but allows some fluctuations

U.S. Economic and Political News

- Economic data was mixed
  - Pending Home Sales fell -0.7% in November, while the National Association of Realtors' gauge of contract signings is down -7.7% year-over-year
  - Weekly Jobless Claims of 216,000 were right in line with the prior week and consensus estimates

- The Richmond Fed Index printed -8 in December, down from +14 in November
- Chicago PMI came in at 65.4, ahead of the 61.2 consensus forecast
- The Case-Shiller Home Price index rose 0.4% sequentially and 5% year-over-year in October, marking the slowest rate of home price appreciation in the past two years

- The Conference Board's gauge of Consumer Confidence fell to 128.1 in December, widely missing the 133.6 consensus forecast, and well below November's 136.3 reading



Source: dshort.com

- President Trump articulated a buy-the-dip mentality on Christmas Eve, saying, "We have companies – the greatest in the world, and they're doing really well. They have record kinds of numbers. So I think it's a tremendous opportunity to buy. Really a great opportunity to buy"
- President Trump publicly praised Treasury Secretary Steven Mnuchin, saying his Treasury chief is a "very talented guy, very smart person." Those comments came after Mr. Mnuchin's conference call with the CEOs of large US banks, intended to be pro-active in the wake of recent market volatility, but which led some to question whether there's more to be worried about

Commodities

- Amid political and stock market turmoil, gold touched a six-month high
- WTI crude fell -1.1% for the week, finishing the year down -25% as reduced global consumption fears and excess inventory concerns weighed on the commodity's price

Fixed Income

- Most broad fixed income indexes experienced volatile and ultimately negative price returns in 2018 as the Federal Reserve hiked the short-term target rate four times, and the yield curve continued to flatten

Fixed Income Instrument	2018 Return
iShares 20+ Year Treasury Bond/TLT	-1.7%
iShares Iboxx $ Investment Grade Corporate Bond/LQD	-3.8%
iShares J.P. Morgan USD Emerging Markets Bond/EMB	-5.5%
iShares National Muni Bond/MUB	0.9%
SPDR Bloomberg Barclays High Yield Bond/JNK	-3.3%
iShares U.S. Aggregate Bond/AGG	0.1%

Source: FactSet data

This Week:

- The Holiday shortened week will be very quiet on the Corporate calendar, but there will be some economic releases from Wednesday through Friday
- U.S. economic data:
  - Monday: Dallas Fed Index
  - Tuesday: Holiday
  - Wednesday: Markit PMI Manufacturing (Dec) – 53.8 actual, down from 55.3 in November, which marked the slowest growth rate in 15 months
  - Thursday: ADP Employment (Dec), ISM New York (Dec), ISM Manufacturing PMI (Dec), Construction Spending (Nov), Total Vehicle Sales (Dec)
  - Friday: Chicago PMI (Dec), Wholesale Inventories (Nov), Pending home sales (Nov)
- International economic data:
  - Monday: No significant releases
  - Tuesday: Holiday
  - Wednesday: Euro-zone: Markit PMI Manufacturing (Dec); Germany: Markit PMI Manufacturing (Dec); UK: CIPS PMI Manufacturing (Dec)
  - Thursday: Germany: UK: CIPS Construction PMI
  - Friday: Euro-zone: CPI EU Harmonized (Dec), PPI (Nov), Markit PMI Composite (Dec); Germany: ILO unemployment (Dec), Markit PMI, Foreign Direct Investment (Nov); UK: BoE (Nov), M4 Money Supply (Nov); China: Caixin Services PMI (Dec); Japan: Markit PMI Manufacturing (Dec)

Happy New Year!

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

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