



Return

Index	Close	Week	YTD
Dow Jones Industrial Average	22,445	-6.9%	-9.2%
S&P 500 Index	2,417	-7.1%	-9.6%
NASDAQ	6,333	-8.4%	-8.3%
Russell 2000 Index	1292	-8.4%	-15.9%
MSCI EAFE Index	1,713	-2.3%	-16.5%
10-yr Treasury Yield	2.78%	-0.11%	0.38%
Oil (\$/bbl)	\$45.38	-11.4%	-24.9%
Bonds*	\$105.79	0.4%	-0.6%

Source: Bloomberg, 12/14/18.

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

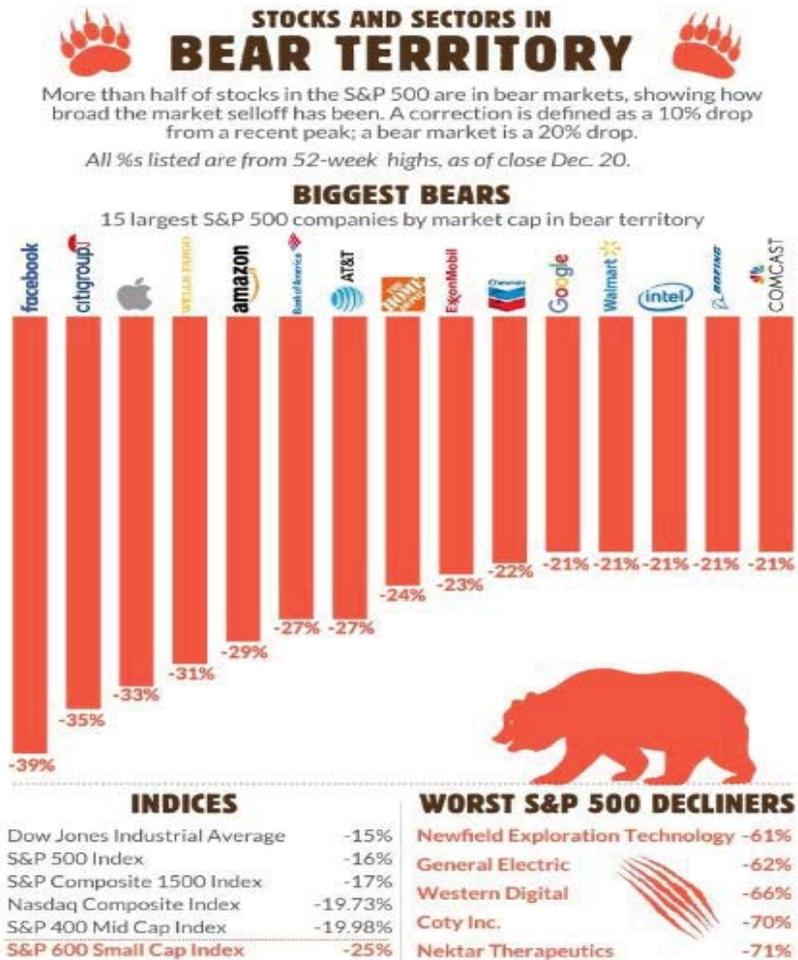
Last Week:

U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) declined (-6.9%), suffering its biggest loss since August 2011 as the Federal Reserve (Fed) policy mistake fears, slower global growth, U.S.-China trade tensions, Brexit, and looming U.S. government shutdown weighed on markets. The Fed matched market expectations with a 25 basis point rate hike, but disappointed investors with an expectation of two further hikes in 2019 instead of a pause in rate increases and reiterated balance sheet normalization (another form of tightening) is on autopilot
 - Utilities (-4.5%) outperformed as investors favored defensive stocks
 - Materials (-4.8%), financials (-5.3%), REITs (-6.4%), industrials (-6.6%) and healthcare (-6.7%) outperformed
 - The Nasdaq Biotech index has lost more than 1% seven straight days, its longest stretch since its inception in 1993
 - Consumer staples (-7.1%) underperformed
 - Communications services (-7.5%), information technology (-7.9%) and consumer discretionary (-8.6%) underperformed as higher valuation growth stocks had outsized declines
 - Energy (-9.0%) significantly underperformed as the price of oil fell 11.4%
- The Dow Industrials declined -6.9%, and is now on pace for its worst December since 1931 and the worst month in a decade

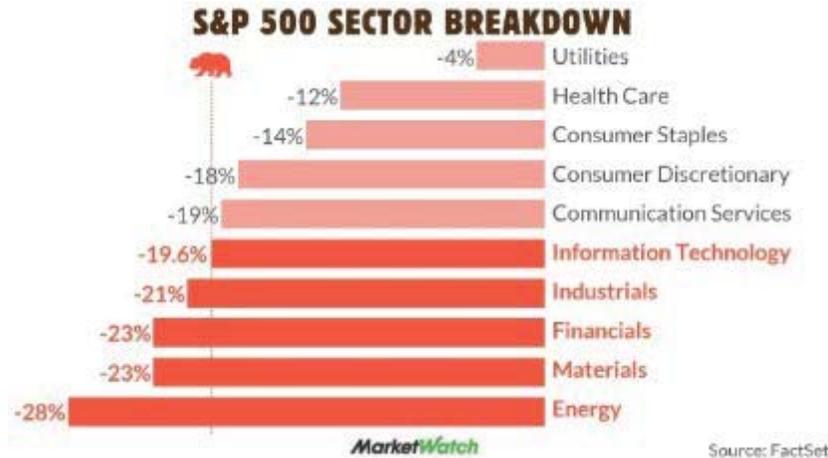


- Small-cap equities underperformed U.S. large caps as the Russell 2000 Index fell -8.4%
- The technology-heavy Nasdaq Composite Index (-8.4%) underperformed the S&P 500 Index as higher valuation growth stocks experienced outsized declines
- More than half the stocks in the S&P 500 are down 20% or more, including all the FAANG stocks: Facebook, Amazon, Apple, Netflix, and Alphabet (Google)

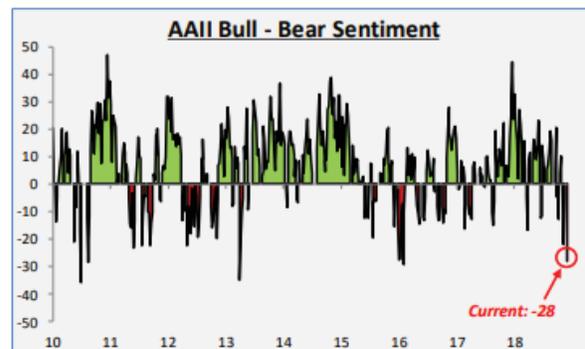


Source: marketwatch.com

- Year-to-date utilities, health care, and consumer staples are outperforming, while energy, materials, financials, industrials and information technology are all down 20% or more



- A number of technical indicators suggest markets may be approaching a bottom



Source: Wolfe Research

International Markets and News

- European equities (STOXX Europe 600) fell -3.0% as ongoing concerns over the global growth outlook, developed market monetary policy tightening, and Brexit fears weighed on markets. On the positive side, the European Union (EU) and Italy reached a budget compromise
 - Basic resources (-0.2%), chemicals (-1.3%), financial services (-1.6%), and insurance (-1.7%) outperformed. Travel & leisure (-3.7%), retail (-3.9%), banks (-4.2%), oil & gas (-5.0%) and technology (-5.1%) underperformed
 - The EU reached an agreement with Italy on its budget deficit target of 2.04% for 2019, down from its original budget projection of 2.40%, and confirmed it will not proceed with its disciplinary procedure against Rome. The push to reach a deal seemed to gain traction after the EU also confirmed that France would avoid its disciplinary action despite its new spending pledges expected to push its deficit above 3% next year



- After United Kingdom Prime Minister Theresa May failed to win any concessions from EU leaders last week, focus turned to futures options amid expectations that May's Brexit deal is unlikely to pass through Parliament. May confirmed the vote would take place the week of January 14th
- UK retail sector experienced weak reports due to margin pressure and competition. Several traditional and online retailer stocks fell double digits on weaker revenue and profit warnings
- Chinese markets fell (Shanghai Composite Index -3.0%) during the week as new, friendly small business policies and a temporary thaw in U.S. -China trade tensions failed to lift investor sentiment
 - China's central bank announced Wednesday the creation of a new monetary tool intended to increase credit for small and private companies. The targeted medium-term lending facility permits domestic banks to borrow from the central bank at lower rates to extend loans to smaller companies
 - The central bank has cut reserve requirement ratios four times this year in an attempt to stimulate local economic growth
- Japanese equities fell -5.7% (Nikkei 225 Index) during the week as global equities came under pressure, and Japanese exports grew at a sluggish pace
 - As expected, the Bank of Japan kept its accommodative monetary policy unchanged, but BoJ Governor Haruhiko Kuroda said that the central bank could increase stimulus if the economy slows
 - Japanese exports grew just 0.1% in November year over year, a possible reflection of the slowing growth in China, one of Japan's leading trading partners

U.S. Economic and Political News

- Economic data was mixed
 - The National Association of Home Builders sentiment index fell to 56 in December, its lowest level since May 2015, and down from 60 in November and 68 in October
 - Weekly initial jobless claims rose modestly after a sharp drop the previous week, but remained near historic lows
 - Core capital goods orders (excluding volatile aircraft orders) declined in November, suggesting a continued slowdown in business investment
 - The third and final calculation from the Commerce Department for third quarter GDP was revised down from 3.5% to 3.4% due to slightly weaker consumer spending than originally estimated
 - Existing Home Sales of 5.32 million seasonally adjusted annualized units in November topped the 5.20 million consensus forecast



Existing home sales

Annualized rate



Source: National Association of Realtors via FRED

- James Mattis became the first Secretary of Defense to quit the post since it was created in 1947. Mr. Mattis resigned in protest of President Trump's decision to withdraw troops from Syria, writing: "Because you have the right to have a Secretary of Defense whose views are better aligned with yours on these and other subjects, I believe it is right for me to step down from my position"
- The Fed matched market expectations with a 25 basis point rate hike, but disappointed investors with an expectation of two further hikes in 2019 instead of a pause in rate increases, and reiterated balance sheet normalization is on autopilot
 - The Fed's expectations for two additional interest rate increases in 2019 was down from the three 2019 increases it had predicted three months ago, but the market hoped for more accommodative expectations around the pace of rate increases and reduction of the Fed's balance sheet
 - The Fed's December hike marked just the second time since 1980 that the FOMC has hiked rates when the S&P 500 was down over the trailing 3, 6, and 12 months (the other occurrence came in 1994)

Commodities

- WTI crude fell 11.4% as inventory levels remain high. OPEC hasn't even begun implementing its recent six month agreement to cut output by 1.2 million barrel per day, and already members are suggesting additional cuts could be discussed. "The planned cuts have been carefully studied, but if it doesn't work, we always have the option to hold an extraordinary OPEC meeting and we have done so in the past," Suhail Mohammed Al Mazrouei, who is also OPEC president, said in Kuwait. "If we are



required to extend for another six months, we will, if it requires more, we always discuss and come up with the right balance.”



Fixed Income

- Equity volatility and policy uncertainty sent the 10-year Treasury yield to its lowest level since late May (bond prices and yields move in opposite directions)
- The high yield bond market tracked equities lower, with both bonds and bank loans experiencing weakness
- Selling activity accelerated after the Fed’s rate announcement, and energy credits underperformed as oil prices fell

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 and market participants will be paying close attention to any developments regarding the government shutdown and President Trump’s possible move to oust Fed Chairman Powell
- U.S. economic data:
 - Monday: Chicago Fed National activity index (Nov)
 - Tuesday: Holiday
 - Wednesday: S&P / Case-Shiller Home Price (Oct), Richmond Fed Manufacturing Index (Dec)



- Thursday: House Price Index (Oct), Building Permits (Nov), Consumer Confidence (Dec), New Home Sales (Nov)
- Friday: Chicago PMI (Dec), Wholesale Inventories (Nov), Pending home sales (Nov)
- International economic data:
 - Monday: No significant releases
 - Tuesday: Japan: Coincident Index (Oct), Leading Index (Oct)
 - Wednesday: Holiday in EU and UK
 - Thursday: UK: Nationwide House Price (Dec), China: Japan: Trade Balance (Dec), Import / Export (Nov)
 - Friday: Germany: CPI NSA (Dec), China: Japan: CPI Tokyo (Dec), Housing Starts (Nov), Unemployment Rate (Nov), Industrial Production (Nov), Retail Sales (Nov), Shipments (Nov)

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

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