



Index	Return		
	Close	Week	YTD
Dow Jones Industrial Average	23,996	2.4%	2.9%
S&P 500 Index	2,596	2.5%	3.6%
NASDAQ	6,971	3.5%	5.1%
Russell 2000 Index	1,447	4.8%	7.3%
MSCI EAFE Index	1,787	2.9%	3.9%
10-yr Treasury Yield	2.70%	0.03%	0.01%
Oil (\$/bbl)	\$51.68	7.8%	13.8%
Bonds*	\$106.55	-0.1%	0.1%

Source: Bloomberg

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

Last Week:

U.S. Equity Markets

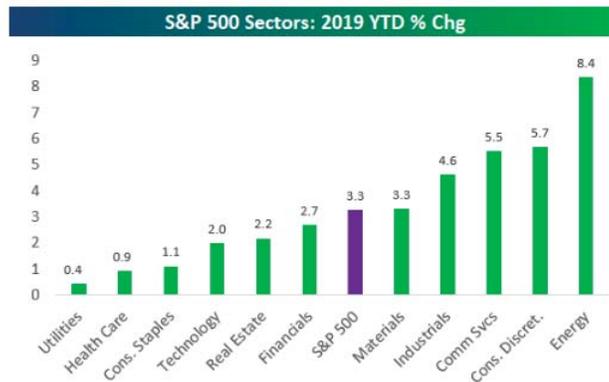
- U.S. large cap equities (S&P 500 Index) rose 2.5%, marking a third-straight week of gains. The Federal Reserve released more patient and flexible interest rate comments, outlook for U.S.-China trade deal improved, Chinese economic stimulus was announced, and the U.S. government shutdown continued to be largely ignored. The S&P 500, Dow Industrials, and NASDAQ Composite achieved their best 7-day start to a year since 2006
 - Industrials (+4.1%) led the U.S. equity market as rails and truckers were some of the best performing industries
 - REITs (+3.9%) outperformed
 - Consumer discretionary (+3.7%) outperformed as retail had a good week despite volatility surrounding holiday updates, plus toy companies, home builders and autos outperformed
 - Information technology (+3.4%) outperformed, led by semiconductors
 - Energy (+3.4%) continued to rally this week as the price of oil rose 7.8% for the week and is now up 13.8% for the year after dropping significantly in the fourth quarter of 2018



Source: FactSet

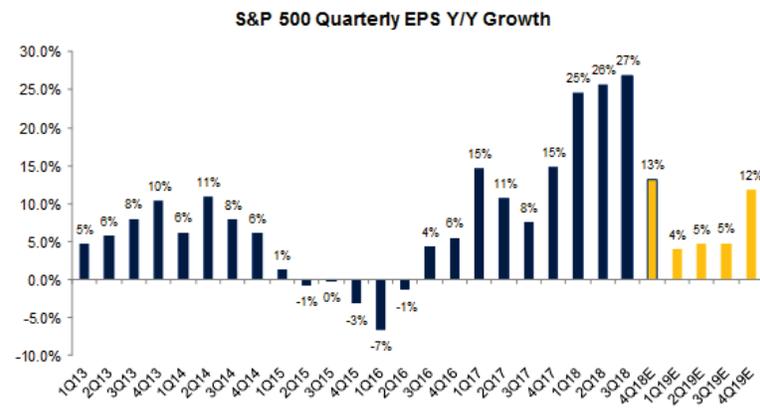


- Healthcare (+2.3%) underperformed despite another strong week for the biotechnology industry. Eli Lilly is buying Loxo Oncology for \$8 billion
- Communication services (+2.1%) and materials (+1.9%) underperformed, with precious metals companies dragging down the materials sector
- Financials (+1.0%) underperformed as banks struggled into earnings season on concerns about the outlook
- Consumer staples (+0.6%) and utilities (+0.8%) underperformed as investors favored less defensive sectors, plus consumer staples were dragged down by weakness in tobacco and select beverage companies
- The last shall be first? That’s generally been the case for sector performance of the S&P 500 Index in the first 10 days of 2019, with the previously downtrodden Energy sector leading the way, while recently resilient Utilities have lagged



Source: Bespoke

- The Dow Industrials rose 2.4%, modestly underperforming the S&P 500 Index
- Small-cap equities continued to outperform U.S. large caps in 2019 as the Russell 2000 Index rose 4.8%
- The technology-heavy Nasdaq Composite Index (+3.5%) outperformed the S&P 500 Index as semiconductor stocks outperformed
- Earnings growth is decelerating from a torrid, tax-cut-fueled pace

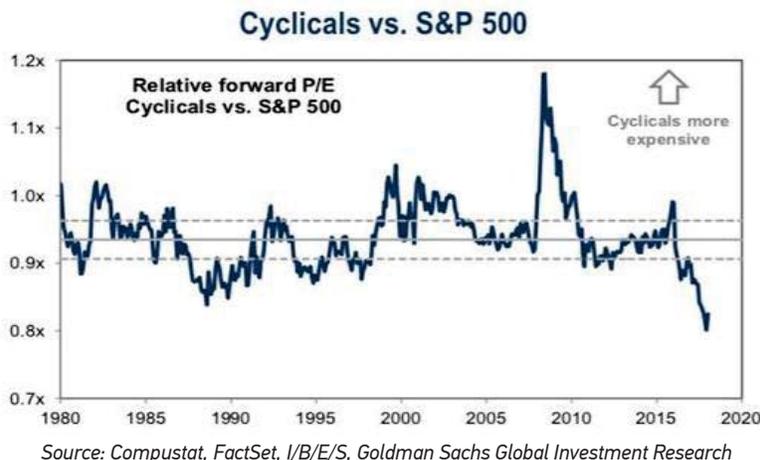


Source: Thomson Financial, S&P, Morgan Stanley Custom Baskets

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- Cyclical valuations appear inexpensive compared to the S&P 500 index



International Markets and News

- European equities (STOXX Europe 600) rose 1.7% for the second straight weekly gain despite weaker industrial activity in major economies (Germany, France & Italy), ongoing Brexit concerns, and soft auto/retail sales in the U.K.
 - Information technology (+4.1%), retail (+4.0%), media (+3.3%), basic resources (+3.3%), auto & parts (+3.2%) outperformed, while telecom (-2.0%), oil & gas (+0.4%), healthcare (+0.9%) and utilities (+1.0%) underperformed
 - German industrial production declined -1.9% in November and German factory orders slid 1% from October (-4.3% year over year), these two readings raised concerns about the rising risk of a technical recession in Germany, though there was limited market impact
 - French data showed a negative surprise of a -1.3% fall in industry output in November, while Italian industry output fell -1.6% in November
 - U.K. Prime Minister May spent the week trying to build support for her Brexit deal, but the BBC expects a rejection of the deal by more than 200 votes on Tuesday (01/15/2019). It's quite possible Brexit implementation will be delayed past its March 29th deadline
- Chinese markets rose (Shanghai Composite Index +1.5%) during the week as momentum picked up toward a possible trade deal and carry over from the economic stimulus announced the previous week
 - Sentiment improved after U.S. and Chinese trade officials held three days of negotiations that ended Wednesday in Beijing. No breakthrough was achieved, but the talks laid the foundation for a potential resolution according to China's Ministry of Commerce
 - China plans to set an official economic growth target of 6.0% to 6.5%, down from 6.5% in 2018 as the country braces for higher U.S. tariffs and weakening domestic demand
- Japanese equities rose 4.1% (Nikkei 225 Index) during the week as real wages rose, but business confidence fell to a six-year low
 - According to the Labor Ministry, real (inflation adjusted) wages for November gained 1.1% year-over-year, the first rise in income in four months and the best gain since June. The data are



promising for stronger consumer spending and the central bank's 2% inflation target, and could help to offset slowing export demand

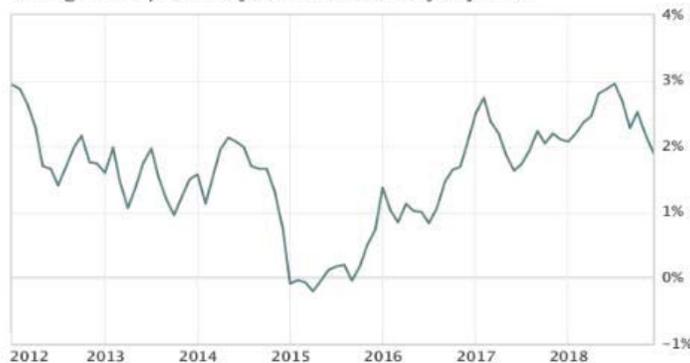
- The diffusion index for business confidence fell to -32.0 in December, its lowest level since December 2012. 40% of respondents thought economic conditions would worsen in the coming year, while only 8% were optimistic for improvement

U.S. Economic and Political News

- Economic data was mixed
 - The NFIB Small Business Optimism index slumped to a 14-month low, making it more of a Small Business Pessimism index presently
 - The ISM Non-Manufacturing index fell to 57.6 in December, from 60.7, marking a five month low
 - The Consumer Price Index dipped -0.1% sequentially in December (in-line with consensus forecasts), with the annual rate of increase decelerating to +1.9%, the first time it's fallen below 2% since August 2017. Core CPI (which excludes volatile food and energy components) was steady at +2.2% year-over-year

Consumer prices

Change from previous year, not seasonally adjusted



Source: Bureau of Labor Statistics via FRED

- The government shutdown reached 21 days Friday, tying the longest on record (the prior 21 day shutdown began in December 1995). An estimated 800,000 federal employees did not receive their regular paychecks Friday
- Unpaid federal employees owe approximately \$438 million in monthly mortgage and rent payments, according to a Zillow report
- Fitch warned it may strip its coveted triple-A rating of U.S. federal debt if the government shutdown persists and if the debt ceiling appears to be a point of contention
 - "You can see debt levels moving higher, you can see the interest burden in the U.S. government moving decidedly higher over the next decade," according to Fitch's head of sovereign debt rating. "If this shutdown continues to March 1 and the debt ceiling becomes a problem several months later, we may need to start thinking about the policy framework, the inability to pass a budget and whether all of that is consistent with triple-A"



- Market performance during prior government shutdowns has been mixed

S&P 500 Performance During Government Shutdowns (1976 - Today)						
President	Start Date	End Date	# Days	Start S&P 500	End S&P 500	% Return
Trump	12/22/2018	?	20	2416.6	2596.6	7.4%
Trump	2/9/2018	2/9/2018	1	2581.0	2619.6	1.5%
Trump	1/20/2018	1/23/2018	4	2810.3	2839.1	1.0%
Obama	10/1/2013	10/17/2013	17	1681.6	1733.2	3.1%
Clinton	12/15/1995	1/6/1996	23	616.9	616.7	0.0%
Clinton	11/13/1995	11/19/1995	7	592.7	600.1	1.2%
H.W. Bush	10/5/1990	10/9/1990	5	312.0	305.3	-2.1%
Reagan	12/18/1987	12/20/1987	3	243.0	249.2	2.5%
Reagan	10/16/1986	10/18/1986	3	238.8	238.8	0.0%
Reagan	10/3/1984	10/5/1984	3	163.6	162.7	-0.6%
Reagan	9/30/1984	10/3/1984	4	166.1	162.4	-2.2%
Reagan	11/10/1983	11/14/1983	5	164.0	166.6	1.6%
Reagan	12/17/1982	12/21/1982	5	135.3	138.6	2.4%
Reagan	9/30/1982	10/2/1982	3	121.6	122.0	0.3%
Reagan	11/20/1981	11/23/1981	4	120.7	121.6	0.7%
Carter	9/30/1979	10/12/1979	13	109.3	104.5	-4.4%
Carter	9/30/1978	10/18/1978	19	102.5	100.5	-2.0%
Carter	11/30/1977	12/9/1977	10	94.6	93.7	-1.0%
Carter	10/31/1977	11/9/1977	10	92.6	93.0	0.4%
Carter	9/30/1977	10/13/1977	14	95.9	93.5	-2.5%
Carter	9/30/1976	10/11/1976	12	105.4	101.6	-3.5%
Median Performance						0.3%
% Positive Performance						57%

Pension Partners THE ASAC INNOVATION MANAGER @CharlieBilello

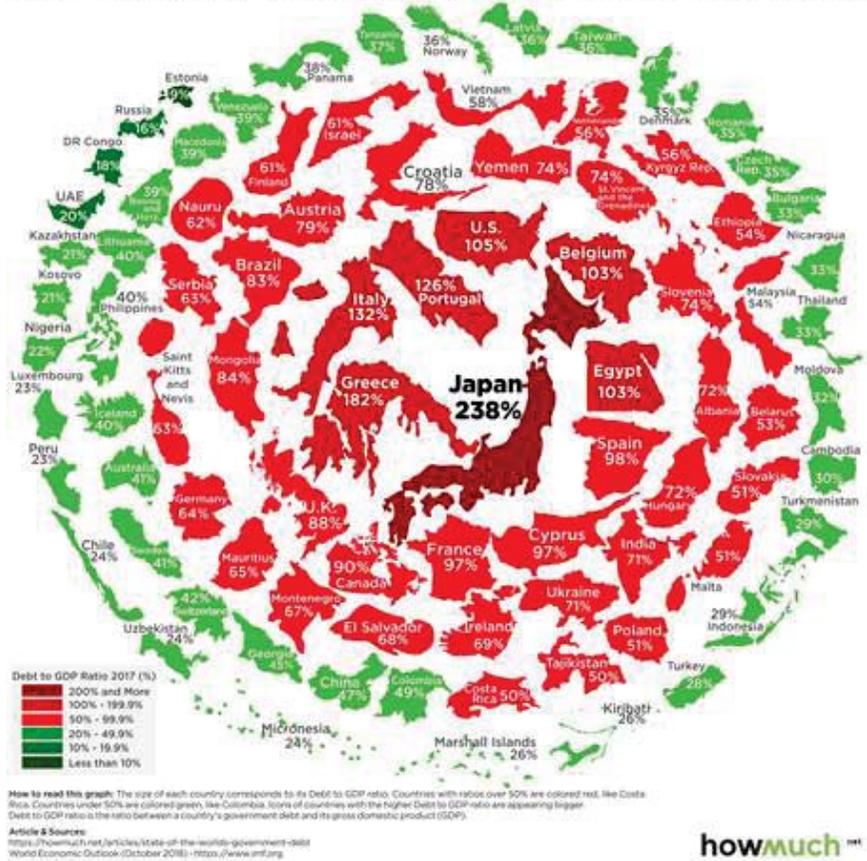
- Investors pulled \$745 million yesterday from Vanguard's \$27.2 billion short-term bond ETF, the fund's biggest one-day withdrawal in its history, while steering \$6.2 billion of inflows into equities in the week ended January 9, according to Merrill Lynch



Source: Bloomberg

- The world's government debt as a percentage of GDP is dominated by developed market countries like Japan, Italy, Portugal, U.S., Spain, and others

The State of the World's Government Debt



Source: Howmuch





This Week:

- The corporate calendar will receive more attention as fourth quarter earnings season gets under way led by the banks and financial institutions
 - Monday: Citigroup
 - Tuesday: **Delta Air Lines**, First Republic Bank, United Continental, Synovus, **Wells Fargo**, **United Health**, **IHS Markit**
 - Wednesday: Alcoa, US Bancorp, Bank of America, Blackrock, Bank of New York, CSX, **Charles Schwab**, PNC, Goldman Sachs, Kinder Morgan
 - Thursday: American Express, M&T Bank, BB&T, JB Hunt, Fastenal, Netflix, PPG, KeyCorp, **Morgan Stanley**
 - Friday: Suntrust, State Street, **Kansas City Southern**, VF Corp, Regions, **Schlumberger**
- Newmont Mining is acquiring Goldcorp in a \$10 billion stock deal
- MNG Enterprises/Digital First Media made an offer to acquire Gannett for \$12/share (\$1.36 billion)
- PPI data will be released Tuesday, with import/export data on Wednesday, NAHB housing index and Philly Fed index on Thursday, and Michigan consumer sentiment on Friday
- U.S. economic data:
 - Tuesday: Empire Manufacturing (Jan), PPI (Dec); Fed Speakers: Kashkari, Kaplan
 - Wednesday: Import / Export prices (Dec), retail sales (Dec), Business Inventories (Nov), NAHB housing market (Jan)
 - Thursday: Building Permits (Dec), Housing Completions (Dec), Housing Starts (Dec), Philly Fed Index (Jan), Fed speakers Quarles
 - Friday: Industrial Production (Dec), Michigan Sentiment (Jan); Fed Speakers Williams, Harker
- International economic data:
 - Monday: Euro-zone: Industrial Production (Nov), China: Import / exports (Dec), FDI (Dec), Outstanding Loan Growth (Dec), M2 Money Supply (Dec)
 - Tuesday: Euro-zone: ECB Draghi presents annual report, Trade Balance (Nov); Germany: GDP (Full year)
 - Wednesday: Euro-zone: Germany: CPI Harmonized (Dec); UK: CPI (Dec), PPI (Dec), Retail price index (Dec); Japan: Machine orders (Nov), PPI (Dec)
 - Thursday: Euro-zone: CPI (Dec); Germany: Wholesale prices (Dec); UK: Conventional Gilt
 - Friday: Euro-zone: Current Account (Nov); UK: Retail Sales (Dec); China: Industrial capacity (Q4); Japan: CPI (Dec), Industrial production (Nov)



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

Whitney Stewart, CFA®
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