SAGE VIEW

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MARKET COMMENTARY

November 2018

Stock prices posted gains in November as a change in the Fed's interest outlook sparked a late-month rally. The Dow Jones Industrial Average rose 1.7%, and the Standard & Poor's 500 Index tacked on nearly 1.8%. The NASDAQ Composite lagged a bit, picking up 0.3%.

The stock market opened the month higher following the midterm elections which placed Democrats in control of the House and left a Republican majority in the Senate. Those gains were quickly lost, however, as an increase in the Producer Price Index prompted fears that accelerating inflation could force the Fed to take a more aggressive stance on interest rates.

Prices fell sharply during Thanksgiving week, led by steep declines in technology stocks and a plunge in oil prices, which raised concerns of a worldwide economic slowdown. As the last week of trading began, stocks surged as a blowout start to the holiday shopping season pushed many of the market's worries to the backburner.

Stocks jumped again mid-week on comments from Fed Chair Jerome Powell, who appeared to change his stance on monetary policy, stating interest rates were "just below" a neutral level. This follows a previous statement in which he indicated rates were a "long way" from neutral. This subtle change was a welcome relief to investors worried that an aggressive rate hike policy could dampen economic growth and corporate profitability going forward. Stocks cemented gains in the final trading days as investors awaited any signs of progress in resolving trade tensions with China during the G-20 summit.

With the uncertainty of midterm elections behind them, investors are focused on several key issues that may affect how the markets enter the new year:

- Interest Rates – The Fed outlined a deliberate plan to hike the federal fund's rates, with one bump expected after its December 18-19 meeting and two more proposed in 2019. But the rate increases next year are now uncertain after Fed Chair Powell's remarks suggesting that rates were "just below" a neutral level.
- Consumer Prices and Wage Growth – The number of future rate hikes by the Fed may largely depend on its reading of inflation. A pickup in consumer prices or an increase in wage growth may force the Fed to stick with its plan for continued rate hikes in 2019.
- Trade Talk Progress – The trade tariff battle between the U.S. and China is an enormous overhang for the market. The continuing impasse may affect economic growth and push prices higher, which may result in higher inflation. A quick resolution should come as a relief to the market, but a protracted standoff may prove detrimental to stocks.
- Corporate Earnings – Two factors drive stock prices: earnings and what investors are willing to pay for those earnings. Some economists say that future stock valuations may be more likely driven by earnings increases rather than an expansion in price-to-earnings ratios. Investors should consider watching corporate earnings results, with a keen interest in economic growth in Europe and China to gauge whether economic activity abroad can help U.S. companies grow their profits.
- The Dollar – Robust economic growth and higher rates have led to a stronger U.S. dollar. A strong dollar can negatively affect profits of U.S.-based multinational companies since it can make their products more expensive to overseas customers. Consequently, investors may watch how the dollar performs against major international currencies to gain insight into future corporate earnings.

International markets managed a slight gain for the month, with the MSCI-EAFE Index rising nearly 0.3%. European markets battled headwinds all month, from weakening economic reports to increased uncertainty surrounding the Brexit deal. The ongoing budget conflict between the European Union and Italy also weighed on the markets. France lost 1.8%, Germany 1.7% and the U.K. 2.2%. Pacific Rim countries had a better month. Japan rose 2% while Hong Kong tacked on more than 6%.

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SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q3 2018	3.5%	↑	The first estimate for Q3 GDP was 3.5%. Growth was boosted by strong consumer spending. However, business investment slowed substantially.
Global Real GDP Growth (ann. rate; Source: IMF)	Q3 2018	3.7%	n/a	The IMF's global growth forecast for 2018 was lowered to 3.7%, citing rising trade protectionism and instability in emerging markets.
Non-Farm Employment Growth	Nov 2018	155,000	↔	Job growth slowed in November, falling short of the forecasted 198,000 jobs. Job creation skewed towards service-related industries, while goods producers saw fewer added jobs.
Unemployment Rate	Nov 2018	3.7%	↓	The unemployment rate held steady at its 49-year low for the third month in a row. Although the US added fewer jobs than expected, the labor market remains strong.
ISM Manufacturing Index	Nov 2018	59.3	↔	U.S. manufacturing activity grew more than expected in November, with an uptick in new orders. On the other hand, construction spending slowed, leading to a mixed overall factory activity.
ISM Non-Manufacturing Index	Nov 2018	60.7	↑	The service sector continued to reflect strong growth in November, despite concerns over tariffs and slower job growth.
Capacity Utilization	Oct 2018	78.4	↑	Capacity utilization for the industrial sector remained tight. Utilization for manufacturing edged up, while indexes for utilities and mining both declined slightly.
Consumer Price Index (CPI, SA)	Oct 2018	0.3%	↑	An increase in gasoline prices was responsible for over one-third of the increase in CPI. The food index declined slightly, leading to a 0.2% increase in all items less food and energy.
Producer Price Index (Final Demand, SA)	Oct 2018	0.6%	↑	Prices for final demand goods rose more than expected in October due to higher food and energy prices.
Leading Economic Indicators Index (LEI)	Oct 2018	0.1%	↔	The leading economic indicators rose slightly in October, but the pace of growth slowed. This points to robust economic growth in early 2019, but the rapid pace of growth may have peaked.
10-year Treasury Yield	Nov 2018	3.01%	↑	The 10-year Treasury yield ended the month lower, after reaching as high as 3.24% mid-month. The decrease occurred after the Fed signaled it may be nearing the end of its tightening policy.

*NOTE: The "Value" column shows the most current level or change over the prior month or quarter.

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	Nov Close	Nov	Year- to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	25,538	2.11%	5.59%	7.62%	15.78%	13.88%
S&P 500	2,760	2.04%	5.11%	6.27%	12.16%	12.80%
Nasdaq	0	0.49%	7.24%	7.75%	14.08%	15.59%
Russell 2000	1,533	1.59%	0.98%	0.57%	10.08%	8.89%
International Indices						
MSCI EAFE (Developed)	1,810	-0.11%	-8.96%	-7.48%	4.63%	3.15%
MSCI EM (Emerging)	995	4.13%	-11.96%	-8.75%	9.81%	2.94%
US Fixed Income						
Bloomberg Barclays US Aggregate	0.60%	-1.79%	-1.34%	1.33%	2.12%	0.60%
Bloomberg Barclays US TIPS	0.48%	-1.80%	-0.90%	1.66%	1.17%	0.48%
Commodities and Real Estate						
Bloomberg Commodity Index	172	-0.56%	-4.68%	-1.83%	1.64%	-7.69%
Crude Oil ($/bbl)		$50.93	$64.73	$57.40	$41.65	$102.33
DJ US Select REIT	10,210	4.85%	4.79%	4.82%	5.83%	9.61%

Sources: Bloomberg, MSCI. Non-US index returns are shown in US Dollar terms and are considered to be currency unhedged. Total returns include

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dividend and income accruals and price changes. Returns for three and five years are annualized and assume the reinvestment of interest and dividend payments. Investors cannot invest directly in any of the above indices. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

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GLOSSARY

The **Bloomberg Barclays Capital U.S. Aggregate Bond Index***, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.*

The **Bloomberg Barclays US Municipal Bond Index** *covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the sub-indices of the Municipal Index have historical data to January 1980. In addition, several sub-indices based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.*

The **Bloomberg Barclays US Corporate High Yield Index** *measures the USD-denominated, non-investment grade, fixed rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.*

The **CBOE Volatility Index® (VIX®)** *is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.*

The **MSCI EAFE** *is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.*

The **MSCI Emerging Markets** *is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.*

The **MSCI ACWI Excluding the U.S.** *is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets without the inclusion of the United States. The MSCI full ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey* and United Arab Emirates.*

The **Russell 1000 Growth Index** *measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.*

The **Russell 1000 Value Index** *measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.*

The **Russell 2000 Index** *measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.*

The **Russell 3000** *Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.*

The **Russell Mid Cap Index** *measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.*

The **S&P 500** *is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

The **Dow Jones Industrial Average** *is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.*

The **NASDAQ Composite Index** *includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.*

The **U.S. Dollar Index** *is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.*

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