FELTZ WEALTHPLAN
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The Weekly Note

A Weekly **Market Commentary**

Monday, January 7th, 2019

"Expect more volatility in 2019"

The stock market was an emotional rollercoaster in 2018, with optimism leading to two separate rounds of all-time highs, each followed by a swift bone-crushing correction. The end result was the first losing year for the major indices since 2008 despite a record surge in corporate profits. While the waves may take new shapes in 2019, we wouldn't expect this volatility to end anytime soon.

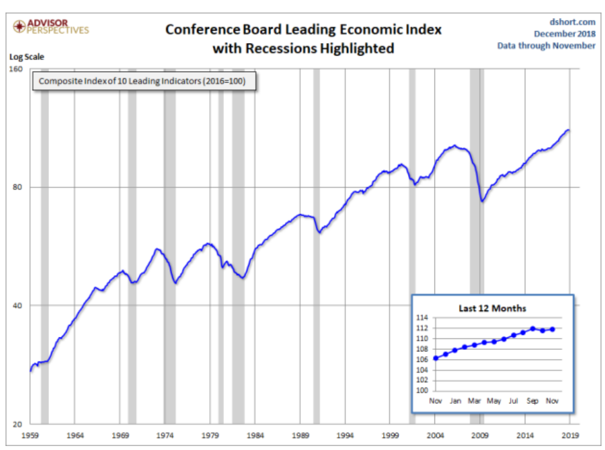
Last week was emblematic of the past 12 months. Stocks sank 2.5% on Thursday following Apple's first revenue guide down in 15 years and a large drop in the ISM manufacturing index which fueled concerns over a global economic slowdown. Then on Friday, the BLS reported 312,000 jobs were added during the month of December, crushing expectations. The S&P 500 rallied 3.3% and the Dow jumped 747 points.

Volatility in economic data leads to volatility in market prices.

Add on to the erratic data a fickle Fed that seems to finally be taking the market's cue of cautiousness towards further tightening in monetary policy. Fed Chair Jerome Powell indicated last week that he is not set on raising rates this year, just months after stating the Fed was "well below neutral" on interest rate policy, and weeks removed from revising 2019 Fed rate expectations from three to two hikes.

The potential for an economic slowdown in combination with monetary policy has led to the flattest yield curve in a decade, which nearly inverted last week at the depths of the volatility, a yellow flag for risk assets. There is mounting evidence to suggest that the global economy has slowed from the torrent pace of growth coming into 2017. Even if China's trade battle is wreaking more havoc on their economy, companies like Apple and other multinationals have and will continue to feel the fallout of a slowdown from the world's second largest economy in the near term if trade talks go nowhere.

Leading economic indicators, however, suggest that the market may be getting a bit too pessimistic towards a ***systemic*** slowdown as it relates to the U.S. economy, at least as it stands today.



In past recessions we have seen several successive declines in the index well before a recession takes place, and this index was still increasing as of the last reading in November. This could very well be an echo of 2015-2016 in which the U.S. economy was able to hold its head above water while the rest of the world experienced a more meaningful economic slowdown which led to volatility in U.S. and ex-U.S. stocks. Time will tell.

Regardless, near full employment with record high profit margins in the U.S. means we are very likely in the mid-to-late cycle when volatility in data and market prices is often susceptible to rising. It also means the separation between winners and losers could become more meaningful as opposed to the tide lifting all boats in the early-to- mid part of the market cycle.

Investors may find returns more difficult in this environment as temptations to react become more tantalizing. Having a plan with a risk budget can provide a better system for managing this choppiness and maximizing the outcomes as we navigate what could be the late and extra innings of this bull market.

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