MURRAY
INVESTMENT MANAGEMENT

4th Quarter 2018 Update

Equity markets sold off significantly during the 4th quarter and wiped out a very good start to the year with almost all asset classes ending up in the red. There were very few places to hide during the year as short-term cash instruments provided some of the better returns for 2018. International performance continued to lag domestic while large cap stocks generally outperformed small caps.

Equity Market Performance

	QTD	YTD
S&P 500 (large cap)	-13.52%	-4.38%
MSCI EAFE (International index net return)	-12.54%	-13.79%
Rusell 2000 (small cap)	-20.20%	-11.01%

The weak market performance during the 4th quarter was largely attributable to concerns about slowing global growth, a trade war with China and less accommodative fiscal (taxes) and monetary (interest rates) policies. Those concerns will continue to be the dominant themes into 2019 with particular attention being paid to the impact that these factors have on corporate earnings, which ultimately drive stock prices.

In December, the U.S. Federal Reserve raised interest rates .25% to a range of 2.25% - 2.50% but lowered rate hike expectations for 2019. Future rate increases will be data dependent, and the Fed has noted that we are close to the desired neutral rate that is neither accommodative nor restrictive. As such, there is a growing belief that the Fed is finished raising rates as the economic risks seem to have shifted from concerns about inflation to concerns about slowing growth. Interest rates rose modestly during 2018, which put pressure on the fixed income space. The Barclays Aggregate, which is a good representation of the broad fixed income market, was basically flat (up .01%) for the year.

The employment situation and consumers continue to be in a strong position, and since consumer spending drives the majority of our economic growth, this is positive for the U.S. economy. U.S. economic growth is, however, expected to slow as higher interest rates, tariffs and fading fiscal stimulus weigh on the economy. How much the U.S. will slow is the primary question on investor's minds with the consensus being that the U.S. will slow but is not headed for a recession in 2019. As such, it could be argued that the market selloff has gotten ahead of itself, and we could be due for a bounce since expectations are low with the potential for upside surprises. The risks to a positive outlook in 2019 include the Fed making a policy mistake (over tightening), the continuation of the trade dispute with China or a more substantial economic slowdown than is expected.

With the market pullback and solid earnings expected in 2019, domestic equity market valuations have improved and are at some of the lowest levels in the last several years. In addition, investor sentiment for equities is not very good, so any sort of positive news to the upside could be constructive for equities. If global growth continues to produce positive earnings, equity markets could move higher, but investors should expect continued volatility in 2019.

When we have volatile and poorly performing equity markets (like we experienced in the 4th quarter), those environments potentially create opportunities to invest in areas that have become cheap (oversold). I am continually reviewing portfolios for these opportunities and will make changes accordingly.

Please give me a call with any questions.

Source: Morningstar, federalreserve.gov, Treasury.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 12/31/2018. Index returns are total returns except for MSCI EAFE which is a net return.

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