

A Year's Worth Of Performance In Just Three Weeks?

Weekly Review

For the week (Thursday-Thursday) US equity markets were higher by roughly 1.5%, while fixed-income markets/indices were flat. Small-Cap names lead from a style perspective, while Core lagged. From a sector perspective, Financials lead the group (+3.7%), driven by strong earnings from Goldman Sachs, Citigroup and solid performance from Bank of America, despite weaker results from Morgan Stanley and JPMorgan Chase. REITs also had a solid week, higher by about 2.2%. Overall market action was positive this week, despite continued constipation from Washington politics, perhaps driven by China related trade optimism.

So Goes January...

The year is only three-weeks old, yet certain segments of the market are providing for a full-year's performance. Year-to-date the Russell 2000 is up 8.8%, while other major equity indices such as NASDAQ and S&P 500 are higher by 6.8% and 5.2%, respectively. As we have suggested, volatility is back, and investors should be wary of more popular theories as the "January Effect," which suggests a seasonal uptick in January is a follow through to year-end tax-loss harvesting in December. While there may be a causal impact to January returns, we believe this recent market recoil is more a function of late stage cycle dynamics, coupled with a topsy-turvy news cycle and geopolitical gyrations. Still, we hope that a positive January may provide a positive path forward for 2019. Research indicated that if January finishes positive, the following 11 months have provided for a positive return of an additional 12.2%, on average. If in a typical January, which ends relatively flat, then investors could expect an 8% move higher through the remainder of the year. On the downside, if January finishes in the red, an average return of only 1.2% could be expected through December, on average.

BREXIT Fallout – Good or Bad for Investors

A "hard BREXIT" (whereby the UK also leaves the EU's Single Market and Customs Union) would represent the type of black-swan/idiosyncratic risk that would have negative global market consequences. But we believe despite the negative headlines out of the UK over the last 72 hours, a hard BREXIT and/or a reversal in Article 50 is still unlikely. Nobody wants this type of fall out, nor do MPs really want the turnover of PM May's government. While good TV, expect the UK government to ultimately support Article 50, just not before the May 2019 deadline.

The Passing of Jack Bogle Doesn't Portend the Death of Indexing

Jack Bogle, the man who disrupted the way investors shape their portfolios, passed away this week at 89. Bogle transformed the investment landscape with launching Vanguard in 1974. One of our favorite quotes from Bogle was, "Eliminate emotion from your investment program. Have rational expectations for future returns and avoid changing those expectations in response to the ephemeral noise coming from Wall Street." While we advocate the use of indexing and ETF investing to reduce costs and improve transparency, we also remind investors that indexing is not without risk. From our view, indexing comes with significantly higher investment correlations, which can have striking consequences during down markets. Therefore, we advocate a diversified portfolio of ETFs that differ across sector, style and allocation.

Domestic Indices		1Week
1	S&P MidCap 400	1.8%
2	DJ Industrial Average TR	1.6%
3	S&P 500 TR	1.5%
4	Russell 2000 TR	1.5%
5	NASDAQ Composite PR	1.4%
6	NYSE Composite PR	1.3%
7	ICE BofAML US High Yield TR	0.5%
8	BBgBarc Municipal TR USD	0.2%
9	BBgBarc US MBS TR	0.1%
10	BBgBarc US Agg Bond TR	0.1%
11	US Inter Gov Bd TR Bond	0.0%
12	BBgBarc US Government TR	-0.1%
Style Stratification		1Week
1	US Small Cap	1.8%
2	US Growth	1.8%
3	US Mid Growth	1.7%
4	US Large Growth	1.7%
5	US Mid Core	1.7%
6	US Mid Cap	1.6%
7	US Mid Val	1.6%
8	US Large Val	1.6%
9	US Market	1.6%
10	US Large Cap	1.5%
11	US Core	1.3%
12	US Large Core	1.1%
Sector Stratification		1Week
1	US Financial Services	3.7%
2	US Cyclcl Sup Sec	2.4%
3	US Real Estate	2.2%
4	US Healthcare	1.7%
5	US Industrials	1.5%
6	US Technology	1.4%
7	US Consumr Cyclcl	1.2%
8	US Snsive Sup Sec	1.2%
9	US Dfnsv Sup Sec	1.1%
10	US Consumr Dfnsv	0.7%
11	US Energy Capped	0.4%
12	US Basic Materials	0.3%
13	US Commn Svc Capped	-0.1%
14	US Utilities	-0.3%
Bond Indices		1Week
1	ICE BofAML US High Yield TR	0.5%
2	US Inter Corp Bd TR Bond	0.4%
3	US Corp Bd TR Bond	0.3%
4	US Lng Corp Bd TR Bond	0.3%
5	BBgBarc Municipal TR USD	0.2%
6	Mortgage TR Bond	0.1%
7	US Inter Core Bd TR Bond	0.1%
8	US Core Bd TR Bond	0.1%
9	US Lng Core Bd TR Bond	0.1%
10	US Shrt Gov Bd TR Bond	0.0%
11	US Inter Gov Bd TR Bond	0.0%
12	US Gov Bd TR Bond	0.0%
13	US TIPS TR	-0.1%
14	US Lng Gov Bd TR Bond	-0.2%
International Markets		1Week
1	SSE Composite PR CNY	1.7%
2	MSCI Japan PR LCL	1.5%
3	Nikkei 225 Average PR JPY	1.5%
4	MSCI Pacific PR LCL	1.3%
5	MSCI Pacific Ex Japan PR LCL	0.9%
6	MSCI Pacific NR USD	0.7%
7	MSCI World Ex USA PR LCL	0.6%
8	MSCI EM Latin America PR USD	0.1%
9	FSE DAX TR EUR	0.0%
10	MSCI World ex USA NR USD	0.0%
11	MSCI Europe PR LCL	-0.1%
12	Euronext Paris CAC 40 NR EUR	-0.2%
13	MSCI Europe NR USD	-0.8%
14	FTSE 100 TR GBP	-1.5%

Source: Morningstar.com

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