STRATEGIC FINANCIAL CONCEPTS

MARKET AND PORTFOLIO UPDATE

SFC Tactical Investment Strategies

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> *I think we are between the mid and late phases of the business cycle, a time when the performance of different types of investments has been historically mixed. I think that means it's not the time to abandon stocks, but it's also not the time to take big bets the way you might early in the cycle.*
>
> Lisa Emsbo-Mattingly, Director of Global Asset Allocation Research for Fidelity Investments

As the year draws to a close, so far neither market volatility nor negative market-moving headlines have shown any signs of winding down. Still, looking toward 2019, confidence in continued steady growth in the U.S. economy remains and the valuations for stocks still appear favorable despite current market concerns.

To summarize what has caused the recent global stock market decline:

- **Fears of the Federal Reserve raising rates too aggressively, which could damage the economy.** Rising interest rates push up borrowing costs for everything from homes to cars. To address this concern, at the end of November, Federal Reserve (Fed) Chairman Jerome Powell commented on the Fed's commitment to "flexibility." Insinuating that rates would not be hiked as far and fast as with past Fed precedents. The stock market rallied in response and lending rates have dropped.
- **Trade war with China causing global growth to slow further.** The impact of tariffs and ongoing trade uncertainty on global growth prospects continues to contribute to market concerns. Progress was made at the G20 summit recently between China and the U.S., and markets welcomed the 90-day trade truce while negotiations proceed. Still, stocks gave back the gains immediately following the announcement when conflicting reports from both sides came out around what was agreed to at the summit. Despite this, the fact that negotiators are talking and making some progress is encouraging.
- **The U.S. Treasury bond yield curve will "invert," causing a recession.** Apprehensions of the Fed raising borrowing rates have also ignited concerns about a resulting "inverted" Treasury yield curve. If the yield curve becomes inverted (where longer-term rates are lower than short-term rates), then that could foreshadow bad news for the economy, stock prices and typically signals a looming recession. Given current economic conditions and the history of the yield curve and recessions, we believe a recession is not imminent in the near term but may be a few years away.

What is our outlook and strategy going forward?

As hard as it may be to believe, this year has been very typical in terms of the volatility that stock markets have experienced historically. Nevertheless, if corporate profits and other economic indicators remain solid, if the Federal Reserve does not raise rates too high and the trade dispute with China ends positively, then optimism should return to the stock market. Even so this pro-market case would likely take a while to play out, during which time stocks could continue to struggle.

As indicators point to higher volatility, these periods can be challenging for investors. SFC has been prepared for it, have a plan in place, and believe we've positioned portfolios well despite increased uncertainty. For advisors and their clients, maintaining a long-term investment plan and avoiding the urge to react strongly to short-term market swings are very important, as is focusing on the many positive fundamentals supporting growth in the economy and corporate profits, rather than allowing speculative click-bait headlines to alter one's long-term plan.

So how have we positioned portfolios in light of this expected stock market downturn? The ride for investors has been turbulent but made smoother for TIS clients this year by our underweight of unsteady stocks and underperforming bonds. We have also used low-correlated alternative investments (such as "hedged" investments and natural resources) that tend to move in different directions than traditional stocks and bonds. This strategy has proven

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effective so far this year and in other periods of volatile market environments. Also, advisors and clients should expect marginal year-end account investment trades to either capture tax losses and/or improve potential portfolio holdings for next year.

We appreciate your continued confidence in our services. Your inquiries are welcomed.

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