

## MARKET COMMENTARY

December 2018

A steep drop in investor sentiment, exacerbated by programmatic selling, sent stocks lower in December, resulting in deep losses across the major market indices. The Dow Jones Industrial Average dropped 8.7%, and the Standard & Poor's 500 Index fell 9.2%. The NASDAQ Composite declined 9.5%.

The stock market opened the month higher on news from the G20 summit meeting that suggested trade tensions between the U.S. and China might be easing. But the enthusiasm was short-lived amid conflicting signals over the discussion between President Trump and Chinese President Xi.

As the month progressed, worries about the ongoing trade dispute and a global economic slowdown added to negative investor sentiment. With the month half over and hopes for a "Santa Claus Rally" fading, the stock market ignored positive developments, such as China's steps to reduce trade tensions by announcing soybean purchases and lowering auto tariffs.

Stocks dropped further following the mid-December Federal Open Market Committee meeting in which policymakers raised short-term rates 0.25%. The markets struggled to manage expectations when Fed Chair Jerome Powell indicated the Fed was staying its course with two more potential hikes in short-term interest rates for 2019.

Holiday market action led to a breathtaking rollercoaster ride as the Dow lost over 600 points on Christmas Eve, then soared 1,000 points the day after and the S&P 500 ended the year lower. This was the first drop since 2008 for the S&P 500.

The curtain will soon rise on the fourth-quarter earnings season, and the results are expected to impact investors' outlook for 2019. Wall Street estimates for 2019 are at a record high for S&P 500 companies. Despite this, some analysts have trimmed growth estimates for S&P 500 companies to 8.2%, down from 10.2% two months ago. Some analysts are forecasting more modest growth in the 3-4% range.

Leading concerns are interest rates, the trade outlook, and global economic growth.

It's uncertain if these recent trade deals will help negotiations with China. Some believe that the elimination of multiple parallel trade negotiations will benefit U.S. interests as the economic impact of tariffs begin to weigh on China's economy.

Overseas equities suffered smaller declines than those experienced by U.S. stocks, with the MSCI EAFE Index sliding 5.4%. Trade tensions, political uncertainty, and economic weakness drove broad declines in France, Germany, and the U.K. Pacific Rim markets were generally more resilient, with smaller losses in Australia and Hong Kong. Japan was among the weakest of the major international markets, losing 10.5% in December.

*This material is provided by SageView Advisory Group and written by FMG Suite, LLC.*



## SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q3 2018	3.4%	↑	The third estimate for Q3 GDP was revised down by 01%. Consumer expenditures and exports were revised down, but the general picture of economic growth remains the same.
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	Dec 2018	312,000	↔	U.S. employers added more workers than expected in December, bringing it to its highest increase since February.
Unemployment Rate	Dec 2018	3.9%	↓	The unemployment rate increased to 3.9% from the previous five-decade low of 3.7% as more workers entered the labor force.
ISM Manufacturing Index	Dec 2018	54.1	↔	Manufacturing expanded in December which indicated growth in manufacturing for the 28 <sup>th</sup> consecutive month and growth in the overall economy for the 116 <sup>th</sup> consecutive month.
ISM Non-Manufacturing Index	Dec 2018	57.6	↑	The services index was 3.1 percentage points lower than the November reading of 60.7%. This represents continued growth in the non-manufacturing sector, at a slower rate.
Capacity Utilization	Nov 2018	78.5	↑	Capacity utilization for the industrial sector rose 0.4 percentage point in November to 78.5 percent, a rate that is 1.3 percentage points below its long-run (1972-2017) average.
Consumer Price Index (CPI, SA)	Nov 2018	0.0%	↑	The CPI Index was unchanged in November. Gasoline declined 4.2%, offsetting increases in an array of indexes including shelter and used cars and trucks.
Producer Price Index (Final Demand, SA)	Nov 2018	0.1%	↑	The Producer Price Index for final demand edged up 0.1% in November, seasonally adjusted. On an unadjusted basis, the final demand index moved up 2.5% for the last 12 months.
Leading Economic Indicators Index (LEI)	Nov 2018	0.2%	↔	The LEI increased slightly in November, but its overall pace of improvement has slowed in the last two months. The LEI suggests the economy is likely to moderate further in the second half of 2019.
10-year Treasury Yield	Dec 2018	2.69%	↑	The 10-year Treasury yield decreased for the third straight month to 2.69%, coming down from its recent 7 year high of 3.25%.

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

## GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	Dec Close	Dec	Year-to-Date	1 year	3 years	5 years
<b>US Indices</b>						
Dow Jones 30	23,327	-8.59%	-3.48%	-3.48%	12.49%	11.22%
S&P 500	2,507	-9.03%	-4.38%	-4.38%	9.26%	9.69%
Nasdaq	0	-9.40%	-2.84%	-2.84%	11.10%	12.45%
Russell 2000	1,349	-11.88%	-11.01%	-11.01%	7.36%	5.65%
<b>International Indices</b>						
MSCI EAFE (Developed)	1,720	-4.83%	-13.36%	-13.36%	3.38%	1.46%
MSCI EM (Emerging)	966	-2.60%	-14.25%	-14.25%	9.65%	1.43%
<b>US Fixed Income</b>						
Bloomberg Barclays US Aggregate	---	1.84%	0.01%	0.01%	2.06%	2.33%
Bloomberg Barclays US TIPS	---	0.55%	-1.26%	-1.26%	2.11%	1.17%
<b>Commodities and Real Estate</b>						
Bloomberg Commodity Index	160	-6.89%	-11.25%	-11.25%	0.30%	-8.72%
Crude Oil (\$/bbl)		\$45.41	\$60.42	\$60.42	\$37.04	\$96.38
DJ US Select REIT	9,333	-8.59%	-4.22%	-4.22%	1.97%	6.80%



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