Market Currents

- **<u>2018 in Summary.</u>** 2018 will be remembered for its volatility. After setting all-time highs in late September, markets pulled back sharply in the final quarter of the year amid signs of slowing global growth, concerns over monetary tightening, ongoing political dysfunction, and US-China trade friction. All equity asset classes ended the year in the red, although large cap domestic stocks held in better than other major equity segments. This is the first negative total return year for the S&P 500 since the financial crisis, ending nine consecutive years of positive returns, and tying the longest streak in market history since 1936.

- **<u>Monetary Policy</u>**. At its policy meeting in December, the Federal Reserve signaled that it plans to increase interest rates two more times in 2019. While this is a step down from the three hikes previously telegraphed, the move was still more hawkish than what market participants were expecting, and contributed to the market's volatility.

- **<u>Government Shutdown…Again.</u>** A dispute over funding for a border wall with Mexico led to a partial government shutdown in late December that has continued into the new year. Historically, U.S. government shutdowns have not been excessively lengthy. Investors will be looking for an eventual face-saving resolution from a politically divided Congress and the White House.

- **<u>Easing Trade Tensions.</u>** Though far from resolved, the trade backdrop between U.S and China is improving. Rhetoric from the presidents of both nations points towards a more conciliatory tone. With the consequences of the trade war weighing on economies and corporate earnings around the globe, we believe there is strong motivation from both parties to seek a resolution.

- **<u>Earnings Season.</u>** Market anxiety over the economic outlook has put a question mark over consensus earnings expectations. Estimates have been coming down lately, reflecting the impact of trade tariffs, economic softness overseas, and rising input costs. As the direct benefits of the tax law changes fade, we expect growth to decelerate in 2019. We continue to pay close attention to commentary from managements to get a sense of their outlooks going forward.

- **<u>Outlook for 2019</u>**. The December panic has abated in the last few days of the year, but confidence among investors is still impaired. Investors will be monitoring economic indicators closely in 2019 for any signs of further economic deterioration. Tariffs and trade wars threaten to undermine economic growth across the globe, and we hope there will be a respectable resolution to this tension. Meanwhile, labor market remains strong, wages are rising, and consumer confidence is high. Inflation remains muted. Valuation, thanks to the ongoing stock market correction, is reasonable. Despite the near-term chop, we believe a thoughtful, long-term approach to risk assets will continue to be rewarded.

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