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INVESTMENT SUMMARY

4th Quarter 2018

The fourth quarter of 2018 did not provide much holiday cheer for investors, as major stock benchmarks registered their worst December since the Great Depression (circa 1931). Major themes jolting the market at the end of the year included the ongoing trade disputes with China, concerns about slowing economic growth overseas, angst over Federal Reserve interest rate policy, and, of course, political gridlock courtesy of a deeply divided U.S. government. With the confidence of investors shaken by these converging forces, about 90% of all asset classes finished 2018 lower in value, with U.S. and International stocks ending the year down 4% and 13%, respectively.

While the markets struggled, the U.S. economy continued to show strength on many fronts: holiday sales were strong, wages rose by 3.2% from prior year levels, unemployment fell to a 50-year low, and inflation held steady at a healthy level of 2%. With these strong economic fundamentals in place, corporate profits are forecast to have increased by 20% in 2018 and projected to rise another 7% in the year ahead. Such buoyant earnings results are encouraging, given the linkage between the stock market and corporate profits. Looking ahead, the U.S. economy is expected to expand at a 2.5% pace, which bodes well for business activity. The prospects for the U.S. consumer, who accounts for about two-thirds of the nation's economic output, are also good thanks to lower gasoline and heating oil prices.

Notwithstanding the strong fundamentals of the U.S. economy, we expect the recent market volatility to continue in the months ahead. After all, the global economy is now in its tenth year of expansion, and central banks around the world are beginning the process of tightening monetary policy. Europe will be attempting its first rate hike later this year, while the U.S. Federal Reserve is further along in withdrawing government stimulus. With Fed Chair Jerome Powell having achieved his dual mandate of maximum employment and price stability, markets are anticipating decelerating growth both here and overseas. Finally, we expect Europe to take center stage in 2019 as they manage through significant political events, including the election of new members to the European Union Parliament, the appointment of the next European Central Bank president, and the contentious exit of the United Kingdom from the EU. While geo-politics do not dictate global market performance, there is a correlation between the two, thus making the upcoming political elections in Europe of great interest to investors around the world.