

MONTHLY MARKET REPORT

DECEMBER 2018

US MARKETS

Stock prices posted gains in November as a change in the Fed's interest outlook sparked a late-month rally.

The Dow Jones Industrial Average rose 1.7 percent, and the Standard & Poor's 500 Index tacked on nearly 1.8 percent. The NASDAQ Composite lagged a bit, picking up 0.3%.¹



Price is what you pay, value is what you get.

Benjamin Graham,
considered by many to be the father of value investing

The stock market opened the month higher following the midterm elections which placed Democrats in control of the House and left a Republican majority in the Senate. Those gains were quickly lost, however, as an increase in the Producer Price Index prompted fears that accelerating inflation could force the Fed to take a more aggressive stance on interest rates.

WORRIES OF GLOBAL SLOWDOWN

Prices fell sharply during Thanksgiving week, led by steep declines in technology stocks and a plunge in oil prices, which raised concerns of a worldwide economic slowdown.

As the last week of trading began, stocks surged as a blowout start to the holiday shopping season pushed many of the market's worries to the backburner.

FED'S NUANCED SHIFT

Stocks jumped again mid-week on comments from Fed Chair Jerome Powell, who appeared to change his stance on monetary policy, stating interest rates were “just below” a neutral level. This follows a previous statement in which he indicated rates were a “long way” from neutral. This subtle change was a welcome relief to investors worried that an aggressive rate hike policy could dampen economic growth and corporate profitability going forward.

Stocks cemented gains in the final trading days as investors awaited any signs of progress in resolving trade tensions with China during the G-20 summit.

SECTOR SCORECARD

Aside from Energy, which was down by 1.02 percent, all industry sectors moved higher in November, with gains in Communication Services (+2.66 percent), Consumer Discretionary (+4.60 percent), Consumer Staples (+2.66 percent), Financials (+7.13 percent), Health Care (+7.21 percent), Industrials (+5.72 percent), Materials (+7.35 percent), Real Estate (+4.78 percent), Technology (+0.54 percent), and Utilities (+1.22 percent).²

U.S. Market Recap for November 2018



| | | | |
|--|---|---|---|
| S&P 500 ↑ 1.79% November | NASDAQ ↑ 0.34% November | Russell 1000 ↑ 1.80% November | 10-Year Treasury ↑ 3.01% November |
| ↑ 3.24% Year-to-Date | ↑ 6.19% Year-to-Date | ↑ 2.95% Year-to-Date | ↑ 0.61% Year-to-Date |

Yahoo Finance, November 30, 2018. The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

WHAT INVESTORS MAY BE TALKING ABOUT IN DECEMBER

With the uncertainty of midterm elections behind them, investors are focused on several key issues that may affect how the markets enter the new year:

INTEREST RATES

The Fed outlined a deliberate plan to hike the federal fund's rates, with one bump expected after its December 18-19 meeting and two more proposed in 2019. But the rate increases next year are now uncertain after Fed Chair Powell's remarks suggesting that rates were "just below" a neutral level.

One unknown is the impact of the Fed's ongoing program to sell its Treasury and mortgage-backed bonds, which it purchased following the credit market downturn. In one poll, 32 percent of economists believe that the Fed's sale of Treasuries and mortgage-backed securities is the equivalent of 2 or 3 quarter-percentage point hikes. Another 32 percent said the Fed's actions are equal to a single rate hike.³ In other words, prevailing rates may reflect only a portion of the Fed's overall activity.

CONSUMER PRICES AND WAGE GROWTH

The number of future rate hikes by the Fed may largely depend on its reading of inflation. A pick up in consumer prices or an increase in wage growth may force the Fed to stick with its plan for continued rate hikes in 2019.

TRADE TALK PROGRESS

The trade tariff battle between the U.S. and China is an enormous overhang for the market. The continuing impasse may affect economic growth and push prices higher, which may result in higher inflation. A quick resolution should come as a relief to the market, but a protracted standoff may prove detrimental to stocks.

CORPORATE EARNINGS

Two factors drive stock prices: earnings and what investors are willing to pay for those earnings. Some economists say that future stock valuations may be more likely driven by earnings increases rather than an expansion in price-to-earnings ratios. Investors should consider watching corporate earnings results, with a keen interest in economic growth in Europe and China to gauge whether economic activity abroad can help U.S. companies grow their profits.

THE DOLLAR

Robust economic growth and higher rates have led to a stronger U.S. dollar. A strong dollar can negatively affect profits of U.S.-based multinational companies since it can make their products more expensive to overseas customers. Consequently, investors may watch how the dollar performs against major international currencies to gain insight into future corporate earnings.

WORLD MARKETS

International markets managed a slight gain for the month, with the MSCI-EAFE Index rising nearly 0.3 percent.⁴

European markets battled headwinds all month, from weakening economic reports to increased uncertainty surrounding the Brexit deal. The ongoing budget conflict between the European Union and Italy also weighed on the markets. France lost 1.8 percent, Germany 1.7 percent and the U.K. 2.2 percent.⁵

Pacific Rim countries had a better month. Japan rose 2 percent while Hong Kong tacked on more than 6 percent.⁶

World Market Recap for November 2018



| EMERGING MARKETS | NOVEMBER | YEAR-TO-DATE |
|---------------------------------|----------|--------------|
| Hang Seng (China) | ↑ 6.1% | ↓ -11.4% |
| Kospi (Korea) | ↑ 3.3% | ↓ -15.0% |
| Nikkei (Japan) | ↑ 2.0% | ↓ -1.8% |
| Sensex (India) | ↑ 5.1% | ↑ 6.3% |
| Jakarta Composite (Indonesia) | ↑ 3.8% | ↓ -4.7% |
| Bovespa (Brazil) | ↑ 2.4% | ↑ 17.1% |
| IPC All-Share (Mexico) | ↓ -5.0% | ↓ -15.4% |
| Merval (Argentina) | ↑ 6.8% | ↑ 5.0% |
| ASX 200 (Australia) | ↓ -2.8% | ↓ -6.6% |
| EUROPE | | |
| DAX (Germany) | ↓ -1.7% | ↓ -14.7% |
| CAC 40 (France) | ↓ -1.8% | ↓ -5.8% |
| Dow Jones Russia Index (Russia) | ↑ 0.0% | ↓ -2.5% |
| FSTE 100 (Great Britain) | ↓ -2.2% | ↓ -9.2% |

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INDICATORS

GROSS DOMESTIC PRODUCT

Economic growth in the third quarter was unchanged from its initial estimate of 3.5 percent.⁷

EMPLOYMENT

The unemployment rate remained unchanged at 3.7 percent in October, despite a jump in nonfarm payrolls of 250,000. An increase in labor force participation of 0.2 percentage points (or 711,000 Americans) may explain why the unemployment rate did not fall in the wake of an increase in new jobs.⁸

In a possible sign of a tightening labor market, wage growth rose above 3 percent for the first time in more than nine years.⁸

RETAIL SALES

Retail spending rose 0.8 percent, ending two months of declines.⁹

INDUSTRIAL PRODUCTION

A modest increase of 0.1 percent in industrial production captured headlines, but didn't tell the whole story. Manufacturing output rose 0.3 percent, a solid 4.1 percent increase from October 2017 levels.¹⁰

HOUSING

A jump in multifamily construction helped overall housing starts rise in October by 1.5 percent. Residential building permits, an indicator of future construction, declined by 0.6 percent.¹¹

New home sales fell 8.9 percent, its largest drop since December 2017. Purchases of new homes were down 12 percent year-over-year.¹²

Sales of existing homes increased by 1.4 percent from September but were 5.1 percent lower compared with October of last year. That decline represents the largest monthly year-over-year drop since 2014.¹³

CONSUMER PRICE INDEX

Consumer prices rose 0.3 percent in October, the largest jump since January. The year-over-year inflation rate was 2.5 percent, an increase from the prior month's 2.3 percent rate.¹⁴

DURABLE GOODS ORDERS

For the third time in four months, durable goods orders dropped, declining by 4.4 percent. It was the biggest monthly decrease since July 2017.¹⁵

THE FED

The Fed met in November and decided to keep rates unchanged, but signaled that a rate hike was likely in December.

In a change of tone, the minutes indicated that future rate hikes would become more dependent on whether fresh economic data warranted additional increases in the federal funds rate.¹⁶

BY THE NUMBERS

HOLIDAY TRADITIONS

ELVIS' CHRISTMAS ALBUM¹⁷

Best-selling holiday album of all time

OVER 10 MILLION¹⁷

Number of copies sold

25-30 MILLION¹⁸

Number of Christmas trees sold in the U.S. each year

50¹⁸

Number of states in which North American Real Christmas Trees are grown

7 YEARS²¹

Number of years it takes a tree to grow to 6-7 feet

\$1,007.24¹⁹

Average amount Americans expect to spend during the 2018 holiday season

4.1¹⁹

Percent increase from last year

\$637.67¹⁹

Amount they expect to spend on gifts

\$154.53¹⁹

Amount they expect to spend on non-gift purchases because the deals are good

\$692 BILLION₁₉

Total retail sales during November and December 2017

\$637 BILLION₂₀

Gross Domestic Product of Argentina

\$138 BILLION₂₁

Total online spending during last year's holiday season

11.5%₂₃

Increase over the previous year

71%₂₂

Percent of Americans who stay at home for the holidays

107 MILLION₂₃

Number of Americans who travel 50 miles or more

105 MILLION₂₄

Population of the Philippines

\$526 MILLION₂₅

Value of U.S. imports of Christmas lights each year

\$401 MILLION₂₅

Value of U.S. imports of tapered candles each year

KENTUCKY FRIED CHICKEN₂₆

Most popular Christmas dinner in Japan

8-9 WEEKS₂₆

Number of weeks in advance Japanese families must order their Christmas KFC dinner

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Please consult your financial advisor for additional information.

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