



## MARKET STATISTICS

### INDEX RETURNS

EQUITIES (%)			
	WTD	MTD	YTD
<i>S&amp;P 500</i>	1.86	1.03	1.03
<i>DJIA</i>	1.61	0.50	0.50
<i>Nasdaq</i>	2.34	1.58	1.58
<i>Russell 1000</i>	1.90	1.04	1.04
<i>Russell 2000</i>	3.20	2.40	2.40
<i>Russell 3000</i>	1.99	1.14	1.14

FOREIGN (%)			
	WTD	MTD	YTD
<i>MSCI ACWI</i>	-0.99	-1.62	-1.62
<i>MSCI ACWI xUSA</i>	-0.40	-0.80	-0.80
<i>MSCI EAFE</i>	-0.12	-0.56	-0.56
<i>MSCI EM</i>	-1.36	-1.66	-1.66

FIXED INCOME (%)			
	WTD	MTD	YTD
<i>US Intermediate GovlCred</i>	0.70	0.49	0.49
<i>U.S. Aggregate</i>	0.93	0.68	0.68
<i>US Corp High Yield</i>	0.31	0.16	0.16
<i>Municipal Bond</i>	0.47	0.44	0.44

OTHERS (%)			
	WTD	MTD	YTD
<i>DJ Eqty REIT TOT RE IDX</i>	-0.12	-0.33	-0.33
<i>Alerian MLP Index</i>	8.90	7.27	7.27
<i>S&amp;P GSCI Index Spot Indx</i>	1.66	1.84	1.84
<i>Dollar Index Spot</i>	-0.23	0.01	0.01

### RUSSELL STYLE

RETURNS YTD (%)			
	VALUE	CORE	GROWTH
<i>Large</i>	1.32	1.04	0.76
<i>Medium</i>	3.02	2.40	1.82
<i>Small</i>	1.44	1.14	0.84

### ECONOMIC SCORECARD

SELECTED RELEASES			
	ESTIMATE	ACTUAL	DIFFERENCE
<i>Unemployment Rate</i>	3.7%	3.9%	-0.2%
<i>Change in Nonfarm Payrolls</i>	184k	312k	-128k
<i>Initial Jobless Claims</i>	220k	231k	-11k
<i>ISM Manufacturing</i>	57.5	54.1	3.4
<i>Markit US Mfg PMI</i>	53.9	53.8	0.1
<i>Wards Total Vehicle Sales</i>	17.2m	17.5m	0.3m

### COMMODITY PRICES

ALTERNATIVES			
	1/4/2019	12/31/2018	12/31/2018
<i>Generic Crude Oil Future</i>	\$48.26	\$45.41	\$45.41
<i>Generic Gold Future</i>	\$1,286.80	\$1,281.30	\$1,281.30
<i>Dollar Index Spot</i>	\$96.18	\$96.17	\$96.17
<i>Euro Spot</i>	\$1.14	\$1.15	\$1.15

### S&P 500

SECTOR RETURNS (%)	
	YTD
<i>Discretionary</i>	2.18
<i>Staples</i>	0.99
<i>Energy</i>	4.56
<i>Financials</i>	1.79
<i>Health Care</i>	-0.62
<i>Industrials</i>	1.23
<i>Info Tech</i>	-0.79
<i>Materials</i>	1.49
<i>Real Estate</i>	-0.79
<i>Telecom</i>	3.84
<i>Utilities</i>	-0.23



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### INDEX RETURNS

EQUITIES (%)			
	WTD	MTD	YTD
<i>S&amp;P 500</i>	2.54	3.63	3.63
<i>DJIA</i>	2.40	2.93	2.93
<i>Nasdaq</i>	3.45	5.09	5.09
<i>Russell 1000</i>	2.76	3.87	3.87
<i>Russell 2000</i>	4.83	7.36	7.36
<i>Russell 3000</i>	2.91	4.11	4.11

FOREIGN (%)			
	WTD	MTD	YTD
<i>MSCI ACWI</i>	2.89	3.92	3.92
<i>MSCI ACWI xUSA</i>	3.17	4.06	4.06
<i>MSCI EAFE</i>	2.90	3.97	3.97
<i>MSCI EM</i>	3.49	3.45	3.45

FIXED INCOME (%)			
	WTD	MTD	YTD
<i>US Intermediate GovlCred</i>	-0.12	-0.02	-0.02
<i>U.S. Aggregate</i>	-0.21	0.01	0.01
<i>US Corp High Yield</i>	1.83	3.06	3.06
<i>Municipal Bond</i>	-0.13	0.22	0.22

OTHERS (%)			
	WTD	MTD	YTD
<i>DJ Eqty REIT TOT RE IDX</i>	4.47	4.13	4.13
<i>Alerian MLP Index</i>	2.74	10.23	10.23
<i>S&amp;P GSCI Index Spot Indx</i>	4.91	8.40	8.40
<i>Dollar Index Spot</i>	-0.50	-0.49	-0.49

### RUSSELL STYLE

RETURNS YTD (%)			
	VALUE	CORE	GROWTH
<i>Large</i>	3.77	3.87	3.97
<i>Medium</i>	7.18	7.36	7.53
<i>Small</i>	4.00	4.11	4.23

### ECONOMIC SCORECARD

SELECTED RELEASES			
	ESTIMATE	ACTUAL	DIFFERENCE
<i>CPI MoM</i>	-0.1%	-0.1%	0.0%
<i>CPI Ex Food &amp; Energy MoM</i>	0.2%	0.2%	0.0%
<i>Initial Jobless Claims</i>	226k	216k	-10k
<i>Continuing Claims</i>	1740k	1722k	-18k
<i>ISM Non-Manufacturing Index</i>	58.5	57.6	-0.9
<i>Wards Total Vehicle Sales</i>	103.0	104.4	1.4

### COMMODITY PRICES

ALTERNATIVES			
	1/11/2019	12/31/2018	12/31/2018
<i>Generic Crude Oil Future</i>	\$51.61	\$45.41	\$45.41
<i>Generic Gold Future</i>	\$1,288.00	\$1,281.30	\$1,281.30
<i>Dollar Index Spot</i>	\$95.70	\$96.17	\$96.17
<i>Euro Spot</i>	\$1.15	\$1.15	\$1.15

### S&P 500

SECTOR RETURNS (%)	
	YTD
<i>Discretionary</i>	6.00
<i>Staples</i>	1.64
<i>Energy</i>	8.07
<i>Financials</i>	2.85
<i>Health Care</i>	1.63
<i>Industrials</i>	5.38
<i>Info Tech</i>	2.55
<i>Materials</i>	3.42
<i>Real Estate</i>	3.17
<i>Telecom</i>	6.26
<i>Utilities</i>	0.61



## MARKET STATISTICS

### INDEX RETURNS

EQUITIES (%)			
	WTD	MTD	YTD
<i>S&amp;P 500</i>	2.60	6.36	6.36
<i>DJIA</i>	2.96	6.02	6.02
<i>Nasdaq</i>	2.66	7.89	7.89
<i>Russell 1000</i>	2.61	6.61	6.61
<i>Russell 2000</i>	2.24	9.77	9.77
<i>Russell 3000</i>	2.59	6.83	6.83

FOREIGN (%)			
	WTD	MTD	YTD
<i>MSCI ACWI</i>	0.92	4.90	4.90
<i>MSCI ACWI xUSA</i>	0.20	4.31	4.31
<i>MSCI EAFE</i>	-0.19	3.73	3.73
<i>MSCI EM</i>	0.79	4.52	4.52

FIXED INCOME (%)			
	WTD	MTD	YTD
<i>US Intermediate GovlCred</i>	-0.04	0.08	0.08
<i>U.S. Aggregate</i>	-0.11	0.07	0.07
<i>US Corp High Yield</i>	0.38	3.52	3.52
<i>Municipal Bond</i>	0.09	0.41	0.41

OTHERS (%)			
	WTD	MTD	YTD
<i>DJ Eqty REIT TOT RE IDX</i>	2.02	6.23	6.23
<i>Alerian MLP Index</i>	1.92	12.35	12.35
<i>S&amp;P GSCI Index Spot Indx</i>	0.78	8.47	8.47
<i>Dollar Index Spot</i>	0.75	0.22	0.22

### RUSSELL STYLE

RETURNS YTD (%)			
	VALUE	CORE	GROWTH
<i>Large</i>	6.43	6.61	6.79
<i>Medium</i>	9.48	9.77	10.05
<i>Small</i>	6.64	6.83	7.03

### ECONOMIC SCORECARD

SELECTED RELEASES			
	ESTIMATE	ACTUAL	DIFFERENCE
<i>Fianl Demand MoM</i>	-0.1%	-0.2%	-0.1%
<i>PPI Ex Food, Energy, Trd MoM</i>	0.2%	0.0%	-0.2%
<i>U. of Mich. Sentiment</i>	96.8	90.7	-6.1
<i>Industrial Production MoM</i>	0.2%	0.3%	0.1%
<i>Empire Manufacturing</i>	10.0	3.9	-6.1
<i>Initial Jobless Claims</i>	220k	213k	-7k

### COMMODITY PRICES

ALTERNATIVES			
	1/18/2019	12/31/2018	12/31/2018
<i>Generic Crude Oil Future</i>	\$53.69	\$45.41	\$45.41
<i>Generic Gold Future</i>	\$1,280.20	\$1,281.30	\$1,281.30
<i>Dollar Index Spot</i>	\$96.38	\$96.17	\$96.17
<i>Euro Spot</i>	\$1.14	\$1.15	\$1.15

### S&P 500

SECTOR RETURNS (%)	
	YTD
<i>Discretionary</i>	8.42
<i>Staples</i>	3.31
<i>Energy</i>	11.21
<i>Financials</i>	9.16
<i>Health Care</i>	4.25
<i>Industrials</i>	8.90
<i>Info Tech</i>	5.42
<i>Materials</i>	5.82
<i>Real Estate</i>	5.35
<i>Telecom</i>	8.21
<i>Utilities</i>	0.43



## MARKET STATISTICS

### INDEX RETURNS

EQUITIES (%)			
	WTD	MTD	YTD
S&P 500	-0.22	6.41	6.41
DJIA	0.12	6.16	6.16
Nasdaq	0.11	8.01	8.01
Russell 1000	-0.14	6.74	6.74
Russell 2000	0.02	10.00	10.00
Russell 3000	-0.13	6.97	6.97

FOREIGN (%)			
	WTD	MTD	YTD
MSCI ACWI	-0.76	5.40	5.40
MSCI ACWI xUSA	-0.39	6.25	6.25
MSCI EAFE	-0.53	4.49	4.49
MSCI EM	0.14	5.60	5.60

FIXED INCOME (%)			
	WTD	MTD	YTD
US Intermediate Gov/Cred	0.37	0.35	0.35
U.S. Aggregate	0.44	0.43	0.43
US Corp High Yield	-0.24	3.59	3.59
Municipal Bond	-0.02	0.36	0.36

OTHERS (%)			
	WTD	MTD	YTD
DJ Eqty REIT TOT RE IDX	1.41	7.73	7.73
Alerian MLP Index	-0.58	11.77	11.77
S&P GSCI Index Spot Indx	-1.59	8.63	8.63
Dollar Index Spot	-0.54	-0.38	-0.38

### RUSSELL STYLE

RETURNS YTD (%)			
	VALUE	CORE	GROWTH
Large	6.39	6.74	7.09
Medium	9.81	10.00	10.19
Small	6.62	6.97	7.32

### ECONOMIC SCORECARD

SELECTED RELEASES			
	ESTIMATE	ACTUAL	DIFFERENCE
Markit US Manufacturing PMI	53.5	54.9	1.4
Markit US Services PMI	54.0	54.2	0.2
Leading Index	-0.1%	-0.1%	0.0%
Existing Home Sales	5.24m	4.99m	-0.25m
Existing Home Sales MoM	-1.5%	-6.4%	-4.9%
Initial Jobless Claims	218k	199k	-19k

### COMMODITY PRICES

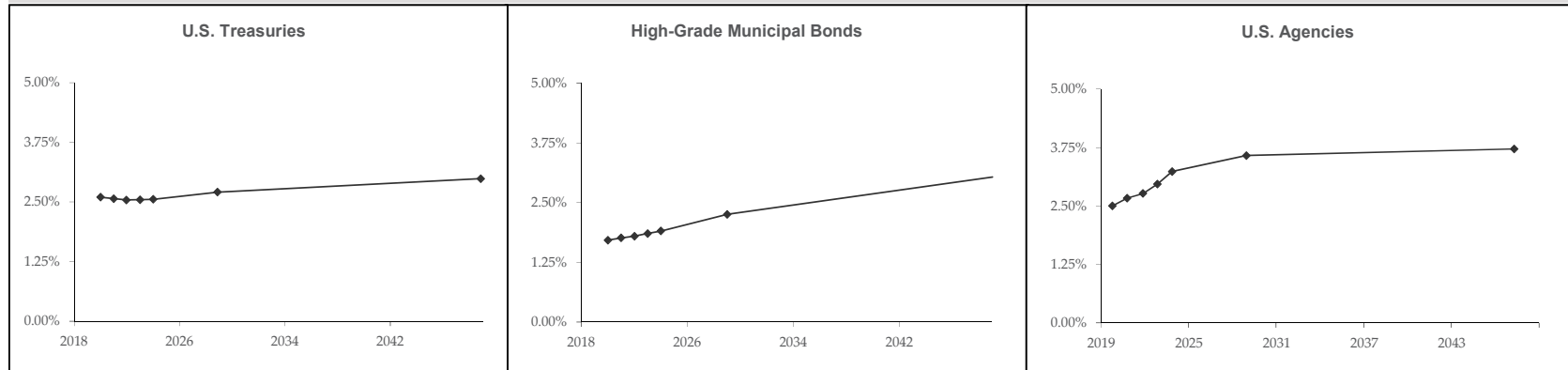
ALTERNATIVES			
	1/25/2019	12/31/2018	12/31/2018
Generic Crude Oil Future	\$53.55	\$45.41	\$45.41
Generic Gold Future	\$1,302.50	\$1,281.30	\$1,281.30
Dollar Index Spot	\$95.81	\$96.17	\$96.17
Euro Spot	\$1.14	\$1.15	\$1.15

### S&P 500

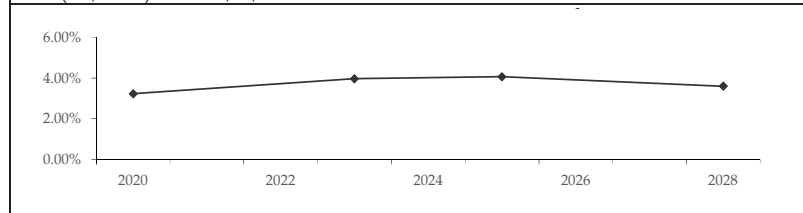
SECTOR RETURNS (%)	
	YTD
Discretionary	8.42
Staples	1.91
Energy	9.63
Financials	9.17
Health Care	2.91
Industrials	8.82
Info Tech	6.47
Materials	5.09
Real Estate	6.95
Telecom	7.46
Utilities	0.80

U.S. Treasury Yields			Municipal Bond Yields <sup>1</sup>			U.S. Agency Yields - Active Bonds					
Coupon	Maturity	YTM	Maturity	YTM	Tax-Equiv. <sup>2</sup>	Agency	Coupon	Maturity	Price	YTM	To Muni (bp)
0.000%	01/02/20	2.60%	01/07/20	1.72%	2.45%	FNMA	1.000%	10/24/19	\$98.83	2.50%	+5
2.500%	12/31/20	2.57%	01/07/21	1.76%	2.52%	FHLB	2.860%	10/15/20	\$100.31	2.67%	+15
2.625%	12/15/21	2.54%	01/07/22	1.80%	2.57%	FFCB	1.520%	11/15/21	\$96.43	2.77%	+20
2.125%	12/31/22	2.54%	01/07/23	1.85%	2.65%	FFCB	1.750%	11/01/22	\$95.45	2.97%	+32
2.625%	12/31/23	2.55%	01/07/24	1.91%	2.72%	FFCB	2.450%	11/29/23	\$96.31	3.24%	+51
3.125%	11/15/28	2.70%	01/07/29	2.26%	3.22%	FFCB	3.250%	12/19/28	\$97.28	3.58%	+35
3.375%	11/15/48	2.99%	01/07/49	3.04%	4.34%	FFCB	3.580%	04/11/47	\$97.23	3.72%	-62

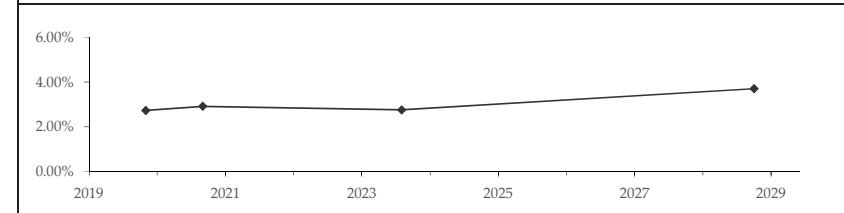
### Current Yield Curves



Corporate Bond Yields			
Description	Price	YTM	To Treasury (bp)
JPM (A2/A-) 4.25% 10/15/2020	\$101.72	3.23%	+67
C (Baa1 *//BBB+) 3.88% 10/25/2023	\$99.57	3.97%	+143
BAC (A3 *//A-) 3.88% 8/1/2025	\$98.88	4.07%	+152
MS (A3/BBB+) 3.78% 5/11/2028	\$99.81	3.60%	+89



Bullet & Callable Agency Bond Yields <sup>3</sup>				
Description	Call Date	Price	YTM	YTW
FFCB 1.16% 11/1/2019	N/A	\$98.75	2.73%	2.73%
FHLB 2.84% 9/25/2020	09/25/19	\$99.83	2.91%	2.91%
FHLMC 3.375% 8/16/2023	02/16/19	\$100.06	3.36%	2.75%
FFCB 3.7% 10/4/2028	10/04/23	\$99.97	3.70%	3.70%



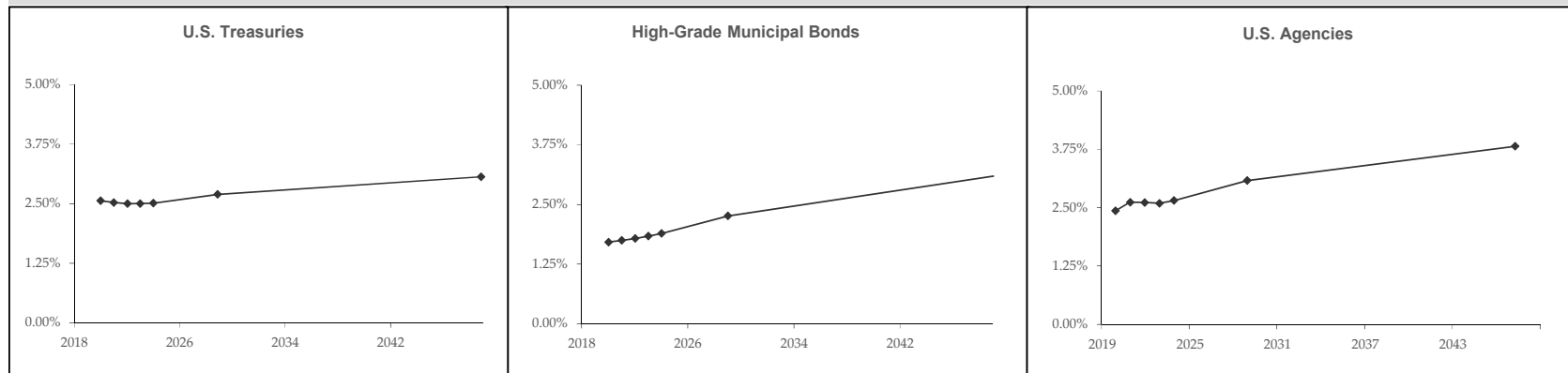
(1) High-grade municipal bonds. (2) Based on a 30% marginal federal income tax bracket. (3) Graph displays yield to call.

Key: bp - basis points. One basis point is 1/100 of one percent. YTM - yield to maturity; YTC - yield to call.

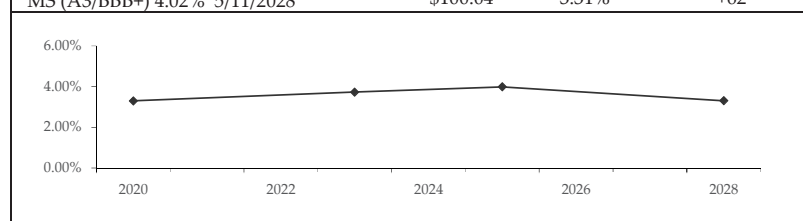
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U.S. Treasury Yields			Municipal Bond Yields <sup>1</sup>			U.S. Agency Yields - Active Bonds					
Coupon	Maturity	YTM	Maturity	YTM	Tax-Equiv. <sup>2</sup>	Agency	Coupon	Maturity	Price	YTM	To Muni (bp)
0.000%	01/02/20	2.56%	01/14/20	1.71%	2.44%	FHLB	2.400%	12/17/19	\$100.00	2.43%	-1
2.500%	12/31/20	2.52%	01/14/21	1.75%	2.49%	FNMA	1.875%	12/28/20	\$98.60	2.62%	+12
2.500%	01/15/22	2.50%	01/14/22	1.79%	2.55%	FHLB	2.625%	12/10/21	\$100.04	2.61%	+6
2.125%	12/31/22	2.50%	01/14/23	1.84%	2.62%	FHLB	3.000%	12/09/22	\$101.49	2.59%	-3
2.625%	12/31/23	2.51%	01/14/24	1.89%	2.70%	FFCB	3.500%	12/20/23	\$103.89	2.65%	-5
3.125%	11/15/28	2.70%	01/14/29	2.26%	3.23%	FHLB	3.500%	12/08/28	\$103.54	3.08%	-15
3.375%	11/15/48	3.06%	01/14/49	3.09%	4.42%	FFCB	3.580%	04/11/47	\$95.64	3.81%	-60

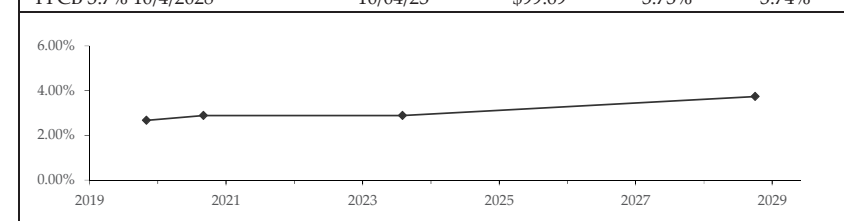
### Current Yield Curves



Corporate Bond Yields			
Description	Price	YTM	To Treasury (bp)
JPM (A2/A-) 4.25% 10/15/2020	\$101.58	3.31%	+78
C (Baa1 *//BBB+) 3.88% 10/25/2023	\$100.61	3.73%	+123
BAC (A3 *//A-) 3.88% 8/1/2025	\$99.34	3.99%	+148
MS (A3/BBB+) 4.02% 5/11/2028	\$100.04	3.31%	+62



Bullet & Callable Agency Bond Yields <sup>3</sup>				
Description	Call Date	Price	YTM	YTW
FFCB 1.16% 11/1/2019	N/A	\$98.82	2.67%	2.67%
FHLB 2.84% 9/25/2020	09/25/19	\$99.87	2.89%	2.89%
FHLMC 3.375% 8/16/2023	02/16/19	\$100.04	3.36%	2.89%
FFCB 3.7% 10/4/2028	10/04/23	\$99.69	3.73%	3.74%



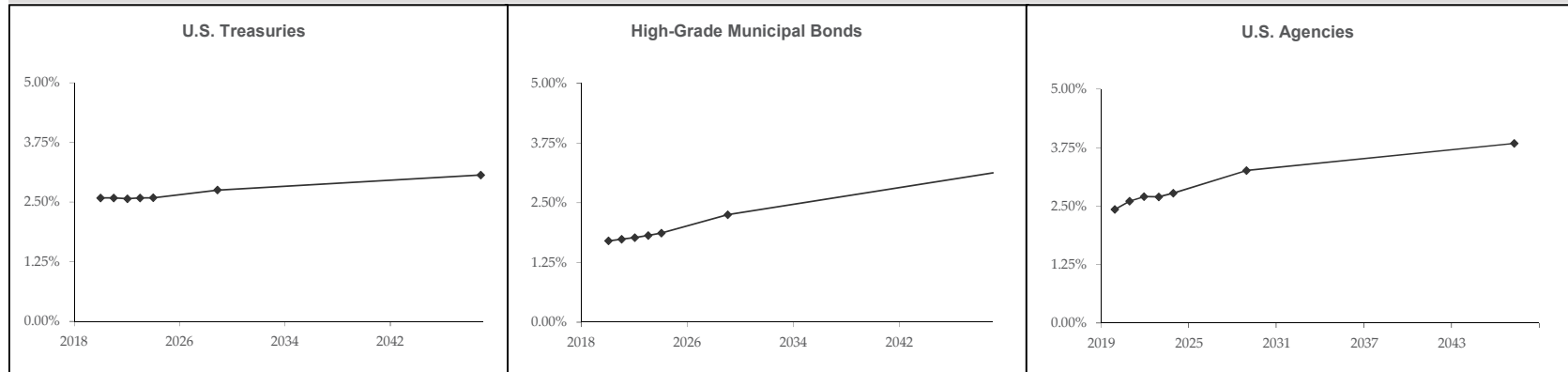
(1) High-grade municipal bonds. (2) Based on a 30% marginal federal income tax bracket. (3) Graph displays yield to call.

Key: bp - basis points. One basis point is 1/100 of one percent. YTM - yield to maturity; YTC - yield to call.

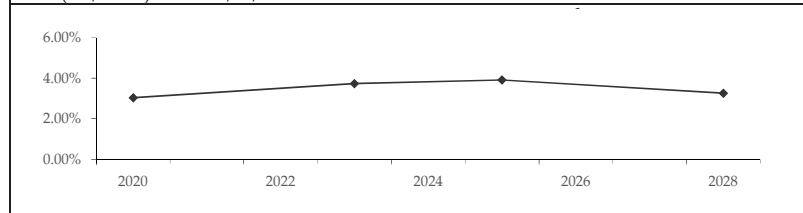
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U.S. Treasury Yields			Municipal Bond Yields <sup>1</sup>			U.S. Agency Yields - Active Bonds					
Coupon	Maturity	YTM	Maturity	YTM	Tax-Equiv. <sup>2</sup>	Agency	Coupon	Maturity	Price	YTM	To Muni (bp)
0.000%	01/02/20	2.59%	01/18/20	1.70%	2.43%	FHLB	2.453%	12/17/19	\$100.00	2.43%	-0
2.500%	12/31/20	2.59%	01/18/21	1.74%	2.48%	FNMA	1.875%	12/28/20	\$98.63	2.61%	+13
2.500%	01/15/22	2.57%	01/18/22	1.77%	2.53%	FHLB	2.625%	12/10/21	\$99.79	2.70%	+17
2.125%	12/31/22	2.58%	01/18/23	1.81%	2.59%	FFCB	2.350%	12/22/22	\$98.72	2.70%	+11
2.625%	12/31/23	2.59%	01/18/24	1.87%	2.67%	FFCB	3.500%	12/20/23	\$103.31	2.77%	+11
3.125%	11/15/28	2.75%	01/18/29	2.25%	3.21%	FHLB	3.500%	12/08/28	\$102.03	3.26%	+4
3.375%	11/15/48	3.07%	01/18/49	3.13%	4.47%	FFCB	3.580%	04/11/47	\$95.22	3.84%	-63

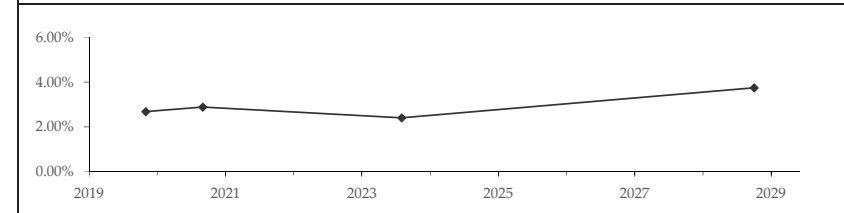
### Current Yield Curves



Corporate Bond Yields				
Description	Price	YTM	To Treasury (bp)	
JPM (A2/A-) 4.25% 10/15/2020	\$102.02	3.04%	+45	
C (Baa1 */BBB+) 3.88% 10/25/2023	\$100.60	3.74%	+115	
BAC (A3 */A-) 3.88% 8/1/2025	\$99.79	3.91%	+132	
MS (A3/BBB+) 4.02% 5/11/2028	\$100.23	3.26%	+51	



Bullet & Callable Agency Bond Yields <sup>3</sup>					
Description	Call Date	Price	YTM	YTW	
FFCB 1.16% 11/1/2019	N/A	\$98.72	2.68%	2.68%	
FHLB 2.84% 9/25/2020	09/25/19	\$99.89	2.88%	2.88%	
FHLMC 3.375% 8/16/2023	02/16/19	\$100.06	3.36%	2.40%	
FFCB 3.7% 10/4/2028	10/04/23	\$99.63	3.74%	3.75%	



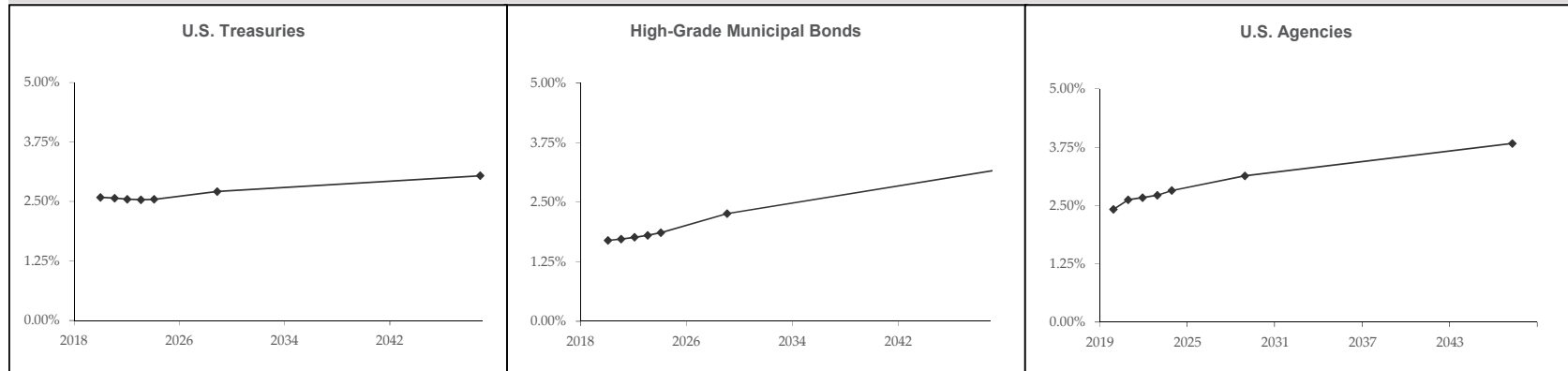
(1) High-grade municipal bonds. (2) Based on a 30% marginal federal income tax bracket. (3) Graph displays yield to call.

Key: bp - basis points. One basis point is 1/100 of one percent. YTM - yield to maturity; YTC - yield to call.

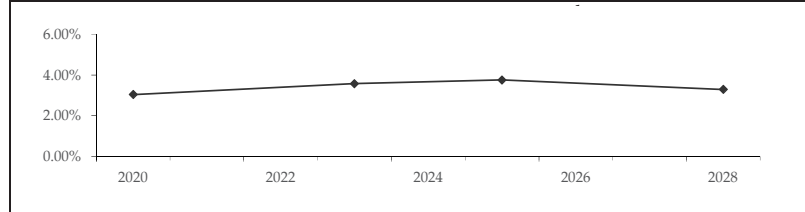
Factual materials obtained from sources believed to be reliable but cannot be guaranteed. Part II of Form ADV is available upon request. For further information please contact FCI at (800) 615-2536.

U.S. Treasury Yields			Municipal Bond Yields <sup>1</sup>			U.S. Agency Yields - Active Bonds					
Coupon	Maturity	YTM	Maturity	YTM	Tax-Equiv. <sup>2</sup>	Agency	Coupon	Maturity	Price	YTM	To Muni (bp)
0.000%	01/02/20	2.58%	01/28/20	1.70%	2.42%	FHLB	2.453%	12/17/19	\$100.01	2.41%	-1
2.500%	01/31/21	2.57%	01/28/21	1.72%	2.46%	FNMA	1.875%	12/28/20	\$98.62	2.62%	+16
2.500%	01/15/22	2.55%	01/28/22	1.76%	2.52%	FHLB	2.625%	12/10/21	\$99.89	2.67%	+15
2.375%	01/31/23	2.54%	01/28/23	1.81%	2.58%	FFCB	2.350%	12/22/22	\$98.39	2.72%	+14
2.500%	01/31/24	2.54%	01/28/24	1.86%	2.66%	FFCB	3.500%	12/20/23	\$103.09	2.82%	+16
3.125%	11/15/28	2.71%	01/28/29	2.26%	3.23%	FHLB	3.500%	12/08/28	\$103.06	3.14%	-9
3.375%	11/15/48	3.04%	01/28/49	3.16%	4.52%	FFCB	3.580%	04/11/47	\$95.40	3.83%	-69

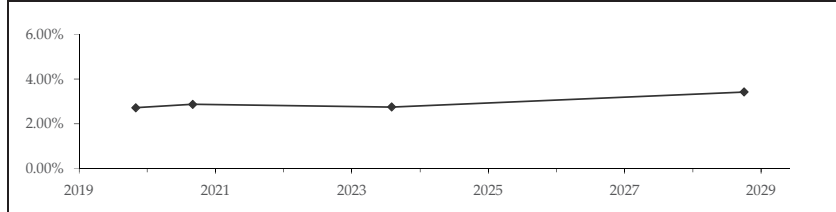
Current Yield Curves



Corporate Bond Yields				
Description	Price	YTM	To Treasury (bp)	
JPM (A2/A-) 4.25% 10/15/2020	\$101.99	3.04%	+48	
C (Baa1 */BBB+) 3.88% 10/25/2023	\$101.26	3.58%	+105	
BAC (A3 */A-) 3.88% 8/1/2025	\$100.64	3.76%	+122	
MS (A3/BBB+) 4.02% 5/11/2028	\$100.03	3.29%	+58	



Bullet & Callable Agency Bond Yields <sup>3</sup>					
Description	Call Date	Price	YTM	YTW	
FFCB 1.16% 11/1/2019	N/A	\$98.72	2.72%	2.72%	
FHLB 2.84% 9/25/2020	09/25/19	\$99.91	2.87%	2.87%	
FHLMC 3.375% 8/16/2023	02/16/19	\$100.03	3.36%	2.75%	
FFCB 3.7% 10/4/2028	10/04/23	\$101.20	3.55%	3.42%	



(1) High-grade municipal bonds. (2) Based on a 30% marginal federal income tax bracket. (3) Graph displays yield to call.

Key: bp - basis points. One basis point is 1/100 of one percent. YTM - yield to maturity; YTC - yield to call.

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## ECONOMIC OUTLOOK

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### *Summary*

Recession. We hear and read a lot about the term on financial cable TV programs, business publications and general news outlets. A basic definition describes a recession as two consecutive quarters of negative GDP output. As we wrap up 2018, statistically speaking, it is quite likely the U.S. economy will show annual growth very close to 3.0%, possibly the best yearly performance for this business cycle. Well, why in the world are investors and market commentators spending so much time talking about the subject? The simple answer is “tightening financial conditions.”

When the Fed is raising interest rates, they are attempting to put the brakes on an expanding economy by curbing “excessive” job gains and wage increases before they contribute to an unwelcome increase in the inflation rate. Higher borrowing costs begin to impact the interest rate sensitive parts of the economy (housing and autos) and start to pull money out of riskier asset classes such as stocks, high yield bonds and commodities, due to higher returns on safe, short-term investments. There is no linear relationship between how far rates rise and how quickly financial conditions tighten (falling stock prices, higher corporate borrowing rates and declining commodity prices, to name a few.) The Fed and their legion of Ph.D. economists, attempt to model these developments and incorporate them into a coherent monetary policy.

Fast forward to today. The Fed has raised interest rates nine times over three years and allowed its balance sheet to roll off over \$500 billion in Treasury and mortgage securities. These events have occurred while almost no major developed economy’s central bank has materially increased their short interest rate over this time frame. The U.S. dollar has strengthened and, consequently, put significant downward pressure on commodity prices. As all financial conditions have tightened materially over the last three

months, many mainstream asset prices have fallen 10% to 20% from their recent highs, indicating some level of caution ahead. The nonlinear negative change in some asset prices lately, has been associated with economic recessions in the past. Significant near term market weakness can eventually lead to economic weakness and that is why we are hearing and seeing the word recession so frequently. All of this suggests a very different monetary policy trajectory going forward. Hopefully, we will see some moderation as the year develops.

### *Positives*

Non-farm payrolls surprise to the upside in December gaining 312,000 jobs

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Building permits advance 5.0% month-over-month lead by multi-family construction

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Personal spending increased 0.4%, 0.3% expected and prior month has upward revision

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### *Negatives*

ISM Manufacturing Index misses badly last month and drops the most since 2008

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Conference Board Consumer Confidence Index drops sharply and misses elevated expectations

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MBA Mortgage Applications fall 8.5% last month signaling more housing weakness ahead

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## EQUITY OUTLOOK

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### *Summary*

Investors seeking a safe haven in rocksteady U.S. equities finally capitulated under the weight of rising uncertainty. Concern over a global economic slowdown weighed on markets with the S&P 500 dropping 9.0% in the final month of 2018, the worst December since the 1930s. The index also finished the year in negative territory for the first time since 2008, falling 4.4%. Concern over progress on the trade conflicts and worry that the Fed may overshoot on their rate policy also continued to plague equity markets.

U.S. markets provided a bit of refuge throughout 2018 as markets abroad struggled. However, in December, international markets actually held up better as the MSCI EAFE Index (developed international) fell 4.8% and MSCI Emerging Markets gave up just 2.8%. Domestically, losses were felt across all styles and sizes in December. Value and growth equities fell nearly in tandem. The Russell 1000 Value Index and Russell 1000 Growth Index dropped 9.6% and 8.6% respectively. Smaller U.S. stocks declined as well. The Russell Midcap Index gave up 9.9% while the Russell 2000 (small cap) suffered an 11.9% decrease.

The turn of the calendar offers fresh perspective and renewed hope. We believe the recent pullback in equity markets offers investors a unique buying opportunity. Volatility will likely remain high over the coming months as markets continue to digest uncertainty. However, the Trump administration and China are likely to reach some sort of trade agreement in 2019, which should provide a major catalyst for global stock markets. Fed policy makers are likely to walk back the number of pending rate

hikes. Brexit should reach some still unknown conclusion. Washington will be mostly grid-locked, which won't be pretty, but is typically positive for Wall Street.

Economic growth is slowing somewhat, but the environment for corporate America remains healthy. We expect equities to rebound in 2019 amid increased volatility. Investors with a medium to long-term time horizon should look for opportunities in the near future to rebalance equity allocations back to their targeted objectives.

### *Positives*

Equity valuations historically reasonable

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Extreme pessimism and oversold conditions typically coincide with buying opportunities

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### *Negatives*

Slowing economic growth domestic and abroad

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Potential policy mistake by the Federal Reserve

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### *Unknown*

Brexit path and impact

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Duration of the US/China trade war

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## FIXED INCOME OUTLOOK

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### *Summary*

The decline in Treasury yields that began in November continued nearly unabated during December. By December 19th, when the Fed concluded a two-day meeting of the Federal Open Market Committee (FOMC), the equity markets had already dropped more than 13% from recent highs, credit spreads had spiked by over 40 basis points (bps), oil prices slid by 40% and there were plenty of signs that global economic momentum was slowing. Despite these ominous signals and despite criticism from President Trump (and possibly because of criticism from President Trump), the Fed yet again followed through on their well-telegraphed plan by increasing the overnight interest rate by another 25 bps to a range of 2.25% to 2.50%.

This was certainly the most controversial of the Fed actions since they began increasing rates three years ago. The accompanying statement and subsequent press conference were not nearly “dovish” enough to comfort investors’ anxieties. The markets were looking at the dark clouds ahead while the Fed was clearly looking at the sunny skies behind them.

The 10-year yield ended the year at 2.68%, 30 bps lower for the month and 56 bps lower than the early-November closing high. The 2-year note also declined 30 bps to 2.49%, nearly 50 bps lower than the November high. At this level, the market is pricing in very little probability of further overnight rate increases by the Fed. With the increasingly uncertain economic outlook and fears that the Fed might be embarking on a policy error, investment-grade credit spreads increased by another 10 bps to a multi-year high.

We hope that Chairman Powell is listening to the markets and becomes the pragmatist that he is reputed to be. We understand the need to assert independence from political pressure, but not at the cost of a policy error. Recent messages from the chair as well as other officials lead us to be optimistic that they understand that now is the time for a pause in the cycle. We believe that the next change in policy is about as likely to be a cut as an increase. We also believe that we have seen the high in rates for quite a while and that the 10-year will struggle to get over 3% again anytime soon.

### *Positives*

Stock market volatility with directional weakness

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Weakening global economic outlook

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Plunging oil prices

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### *Negatives*

Average hourly earnings growth above 3%

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Short-term rates have removed all future rate increases

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### *Unknown*

Trade negotiations with China are the biggest uncertainty to influence all markets

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