

There continues to be a dislocation between economic fundamentals and the stock market. Despite firm economic releases last week, a flattening yield curve (2s/10s spread at 15bp as of Friday) and weak economic data abroad have spooked investors worried about how long the US can remain immune to a global slowdown.

Though there are several important economic releases due this week (jobless claims, CB leading index, GDP, Michigan consumer sentiment), analysts will be focusing on the Fed rate announcement (25bp hike expected) to determine the Fed's course and pace of interest rate movements next year as the market has largely priced out any further hikes in 2019.

This year has been tough on a few fronts – financials have been pressured by a flattening yield curve, energy names have been hurt by falling oil prices, materials hit by a strong USD and industrials impacted by negative trade rhetoric, leaving technology and the more defensive sectors of healthcare and utilities as the only meaningfully positive sectors YTD.

Our tactical model remains neutral (60/40).

MONDAY DECEMBER 17, 2018
NY Empire State Manufacturing Index
TUESDAY DECEMBER 18, 2018
Building Permits
Housing Starts
Redbook
WEDNESDAY DECEMBER 19, 2018
Current Account
MBA Mortgage Applications
Fed Interest Rate Decision
THURSDAY DECEMBER 20, 2018
Initial Jobless Claims
Philadelphia Fed Manufacturing Index
CB Leading Index
FRIDAY DECEMBER 21, 2018
Durable Goods Orders
GDP Growth Rate
Personal Income
Personal Spending
Michigan Consumer Sentiment Final
Kansas Fed Manufacturing Index

GAUGE OF THE GRADE



Staying the Course

Investors tend to see short-term volatility as the enemy. Volatility may lead many investors to move money out of the market and "sit on the sidelines" until things "calm down." Although this approach may appear to solve one problem, it creates several others:

- #1 When do you get back in? You must make two correct decisions back-to-back when to get out and when to get back in.
- #2 By going to the sidelines you may be missing a potential rebound. This is not historically unprecedented, see chart below.
- #3 By going to the sidelines you could be not only missing a potential rebound but all the potential growth on that money going forward.

We believe the wiser course of action is to review your plan with your advisor and from there, decide if any action is indeed necessary. This placates the natural desire to "do something" but helps keep emotions in check.

Intra-Year Declines vs. Calendar Year Returns
Volatility is not a recent phenomenon. Each year one can expect the market to experience a significant correction, which for the S&P 500 has averaged approximately 14% since 1980. Although past performance is no guarantee of future results, history has shown that those who chose to stay the course were rewarded for their patience more often than not.



Source: First Trust Advisors L.P., Bloomberg, as of 11/30/18. The benchmark used for the above chart is the S&P 500 index. The S&P 500 index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges. Returns are based on price only and do not include dividends. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.

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The adjacent chart, courtesy First Trust, shows that since 1980, every year the S&P 500 has endured a significant correction, averaging 14%. If you look at the calendar year returns (darker bars), you will notice that despite those corrections, the market ends the year positively in most cases. Only a few times has the correction been so severe as to lead to a negative calendar return. This year is admittedly one of those tougher years, but it is the exception rather than the rule. We acknowledge slowing economic growth; however, we do not see conditions that would indicate another devastating sell-off.

SECTOR RETURNS

	5 DAYS	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
Basic Materials	-1.5	-6.1	-15.6	-16.8	-14.8
Communication Services	-0.3	-2.5	-9.9	-7.4	-13.4
Consumer Cyclical	-1.4	-5.3	-13.4	-9.5	2.4
Consumer Defensive	-0.4	-3.4	-1.1	6.8	-1.2
Energy	-3.6	-6.5	-17.4	-19.4	-9.6
Financial Services	-3.5	-9.0	-13.6	-13.2	-11.6
Healthcare	-1.9	-2.6	-6.7	2.7	7.7
Industrials	-2.3	-6.9	-15.9	-12.4	-10.2
Real Estate	-1.8	-0.1	-2.3	4.4	0.0
Technology	-0.1	-3.9	-13.9	-7.5	6.2
Utilities	0.7	3.1	4.7	17.3	7.2



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SOWELL'S WEEK AHEAD

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