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SOWELL'S WEEK AHEAD

WEEK OF DECEMBER 17, 2018

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.

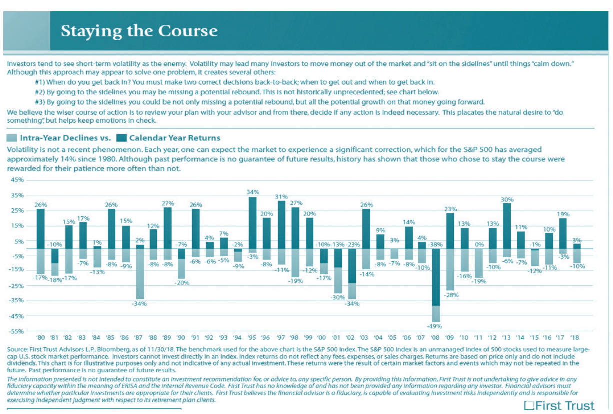
This year has been tough on a few fronts – financials have been pressured by a flattening yield curve, energy names have been hurt by falling oil prices, materials hit by a strong USD and industrials impacted by negative trade rhetoric, leaving technology and the more defensive sectors of healthcare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

BEARISH NEUTRAL BULLISH



The adjacent chart, courtesy First Trust, shows that since 1980, every year the S&P 500 has an 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

INFORMATION AND DISCLOSURE ON FOLLOWING PAGE

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