clearstead
MARKET MINUTE

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Clearstead is an independent institutional and wealth advisory firm that seeks to meet clients' investment objectives with appropriate risk and in a low-cost manner. Once this has been achieved, we seek superior returns compared to client-specific, market-based and peer group benchmarks. We believe broad diversification reduces portfolio volatility and enhances the opportunity for superior risk-adjusted returns.

Negative market sentiment continued through December based largely on the same stories of the year. Unresolved trade issues, weakening global growth indicators, a less dovish Federal Reserve tone than what was hoped for, and political gridlock which led to another partial government shutdown were the main contributing factors.

The latest business surveys suggest the slowdown in global manufacturing continued in December. The J.P. Morgan Global Manufacturing PMI fell to a 27-month low of 51.5[1]. The U.S. Manufacturing PMI for December declined to 53.8 (55.3 in November) while the Eurozone Manufacturing PMI eased to 51.4 (51.8 in November)[3]. Though the survey data are above 50 suggesting growth, the pace of growth is moderating.

U.S. EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
DJIA	-8.6	-3.5	-3.5	12.9
S&P 500	-9.0	-4.4	-4.4	9.3
Russell 2000	-11.9	-11.0	-11.0	7.4
Russell 1000 Growth	-8.6	-1.5	-1.5	11.1
Russell 1000 Value	-9.6	-8.3	-8.3	7.0
FTSE NAREIT U.S.	-7.7	-4.4	-4.4	4.5
Bloomberg Commodity	-6.9	-11.2	-11.2	0.3

The risk-off environment produced losses across the equity spectrum. The S&P 500 Index declined 9.0% for the month, while small caps as measured by the Russell 2000 Index fell 11.9%. Yield oriented sectors performed the best with Utilities down 4.0%. Energy, Financials and Industrials were the weakest performers, all down double-digits for the month. An ugly fourth quarter for stocks across the board erased all of the year's gains with the S&P 500 down 4.4% for 2018, its first negative calendar year since 2008.

The S&P 500 estimated earnings growth rate for Q4 is 12.4% which would result in full calendar year earnings growth of 20.3% on forecasted revenue growth of 8.9%[2]. 2018 was clearly a year during which equity returns diverged from earnings growth, which has made valuations more attractive, though the concern is whether the U.S. has hit peak earnings.

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
MSCI ACWI ex USA	-4.5	-14.2	-14.2	4.5
MSCI EAFE	-4.9	-13.8	-13.8	2.9
MSCI Emerging Markets	-2.7	-14.6	-14.6	9.2
MSCI EAFE Small Cap	-6.4	-17.6	-17.6	4.1

International markets also declined during December but fared better than the U.S. The MSCI EAFE Index declined 4.9% and the MSCI Emerging Markets Index fell 2.7%. Year-to-date international returns for the major, broad indices are down 14-15%.

In Brexit news, UK Prime Minister Theresa May survived the confidence vote and will look to convince Brussels for adjustments on the Brexit deal. Weakening manufacturing growth in the Eurozone was a story that unfolded throughout the year, and tariffs remain a concern and market overhang, particularly for China and select emerging markets.

FIXED INCOME MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
BarCap US Aggregate	1.8	0.0	0.0	2.1
BarCap Global Aggregate	2.0	-1.2	-1.2	2.7
BarCap US High Yield	-2.1	-2.1	-2.1	7.2
JPM Emerging Market Bond +	1.6	-5.3	-5.3	4.0
BarCap Muni	1.2	1.3	1.3	2.3

The Federal Reserve raised rates for the fourth time in 2018 with another 0.25% hike, bringing the Fed funds rate to 2.25-2.50%. The market was disappointed that Fed Chair Powell's remarks were not dovish enough which furthered the risk-off market sentiment.

U.S. Treasury yields moved materially lower in a parallel manner as investors moved into the perceived safe haven asset class. The 2-year and 10-year U.S. Treasury yields both decreased 30 basis points and the 30-year decreased 27 basis points to end the year at 3.02%[3].

The Bloomberg Barclays Aggregate Index total return for December was 1.8% whereas the longer duration Bloomberg Barclay's Long Government/Credit Index returned 3.7%. Credit spreads moved significantly wider amidst elevated market volatility and impacted both investment grade and high yield securities. High Yield declined 2.1% and Bank Loans fell 2.3%. The JPM Emerging Market Bond+ Index escaped the U.S. credit carnage and returned 1.5%.

Sources:
1 IHS Markit 1/2/19
2 Factset Insight, 12/21/18
3 Bloomberg

Definitions:
J.P. Morgan Global Manufacturing PMI: Produced by J.P. Morgan and IHS Markit and is based on original survey data collected from over 12,000 purchasing executives in over 40 countries.

Markit U.S. Manufacturing Purchasing Managers' Index: The U.S. PMI is based on original survey data collected from a representative panel of around 600 manufacturing firms.

Markit Eurozone Manufacturing Purchasing Managers' Index: The Eurozone PMI is based on original survey data collected from a representative panel of around 3,000 manufacturing firms.