2018 Year in Review

Brown Rowland Wealth Management Group

UBS Financial Services Inc.
One North Wacker Drive
Suite 2500
Chicago, IL 60606
312-525-4635

advisors.ubs.com/
brownrowlandgroup

What the heck happened?
The stock market was cruising along, and made a new all-time high in late September up about 10% for the year.[1] Then came October, and everything changed. In a month of high volatility, the Dow fell -5%. November was up slightly, but December, a usually a seasonally strong month, turned in the worst December performance since 1931. The quarter was marked by some wild price swings, including multiple days down 500 points or more and the first ever +1000 day for the Dow. For the year, the broad market S&P 500 index finished down -4.38%, its first negative year since 2008.

All things considered, equity investors have done well. Annualized volatility in 2018 was just roughly in line with its calendar average going back to 1928.[2] And the maximum peak-to-trough drawdown of -19.8% was not much above the historical average (-16.4%).[3] Investors had perhaps been lulled into complacency by the record low volatility and drawdown of the prior year. After nine straight up years, it shouldn't be much of a surprise to see a decline.

It's often hard to understand short-term market moves. The pundits were quick with after-the-fact explanations, but they weren't particularly satisfying. All of the major negative factors—Fed tightening, a trade war with China, an earnings slowdown—were well known on September 20 when the market made its peak. A group of economists reported "Our proprietary database finds no single major cause of market weakness."[4] But nothing changes sentiment like price, and investors' bullishness quickly evaporated as the market fell.

So what's next? The most important question seems to be whether the economy is headed for recession. Historically, market selloffs that don't occur coincident with a recession tend to be relatively short and shallow. As we look at the economic data, it's hard to see recessionary signals. The most important statistics remain positive: Employment is at record levels; wages are up, GDP is running at a 3% plus pace, and inflation remains low. A Fed tightening cycle is often associated with recession, but the "real" (inflation adjusted) funds rate is near zero[5] and the futures market predicts no further increases through the end of 2019.[6]

Trade remains a wild card. On one hand, the impact of the tariff discussions isn't likely to get worse, and a resolution would likely be favorably received by the market. Unfortunately, it appears that both investors and business leaders are becoming discouraged by the volatile and unpredictable actions of the Trump administration. The market would like to see less drama in Washington.

Grant and I remain optimistic about the long-term prospects for the stock market. We don't know what will happen in 2019, but we believe that many growth opportunities, particularly those based on continued advances in technology, lie ahead. We appreciate your confidence in us and look forward to continued success.

All of the recommendations made/positions held within the preceding 12-month period are available upon request. Not all recommendations should be assumed to be profitable and future recommendations/holdings may not be profitable.

The past performance of an index is not a guarantee of future results. Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. Indices are not actively managed and investors cannot invest directly in the indices.

[1] All market statistics from Bloomberg and UBS.
[2] Pension Partners, Charlie Bilello, January 8, 2019.
[3] ibid.
[4] Bank of America Merrill Lynch, January 9, 2019.
[5] *Barron's* September 27, 2018.
[6] CME market data January 9, 2019.