# FINANCIAL MARKET SNAPSHOT

## *In December Equity Markets? Santa Off-Duty*

January 3, 2019

***Global equity markets came under material distress in December. The S&P 500 Index suffered its worst monthly close since 2011.***

Broad global equity indices deteriorated in December as the typical Santa-Claus rally was nowhere to be found this season. Instead, investors preferred to focus on the markets' technical weakness, as well as lingering concern that tighter Federal Reserve policy would slow down the economy too much. Indeed, Fed Chair Jerome Powell did deliver a 25 basis point interest rate hike in December, as expected. However, Mr. Powell's comments following the December meeting seemed to suggest the Fed may be more data-dependent in regards to its future rate path. In fact, current Fed funds futures implied probabilities suggest the central bank may not hike rates at all in 2019. Technically, global equity markets suffered a near wash-out in December as minimal signs of stabilizing price action in November gave way to decided selling pressure. Only the last days of December, and thus the quarter, offered any respite.

**Table 1: Global Equity Market Returns - October / November / December**
Source: Bloomberg

| | October | November | December | 4th Quarter |
|---|---|---|---|---|
| S&P 500 Index | -6.84% | 2.04% | -9.03% | -13.52% |
| MSCI EAFE Index | -7.95% | -0.09% | -4.83% | -12.49% |
| MSCI Emerging Markets Index | -8.70% | 4.13% | -2.81% | -7.60% |

Meanwhile, politics also simmered on the back burner as investors were faced with U.S. government dysfunction in the form of a late-December shutdown, as both political parties and the White House battled on immigration policy funding. U.S. / China trade concerns also lingered, although both sides have worked to take the issue off boil. Steps toward agreement were halting, but some progress was made as the U.S. curbed plans for tariff hikes on China imports scheduled for January 1. However, the undercurrent of philosophical trade disagreement between the parties remains. Clearly, investors decided there was enough to worry about and thus deemed the December glass as "half-empty", rather than "half-full".

While the fundamental issue of tighter Fed policy could continue to be a tough pill for this markets to swallow, and China trade concerns may not go away quickly, what is equally as disconcerting is the technical weakness that this market has endured.

***We believe using technical and fundamental indicators aids in a better understanding of market conditions.***

At HB Retirement, we spend considerable time studying both the fundamental and technical aspects of market conditions. The technical aspects being price trend conditions in the market and whether price trends may be supported or whether those trends have broken down. Today, we see near and intermediate-term equity price trends that have broken down. The good news is that we allocate portfolio assets with price trend in mind and we have reduced equity exposure through the fourth quarter as trend conditions deteriorated.

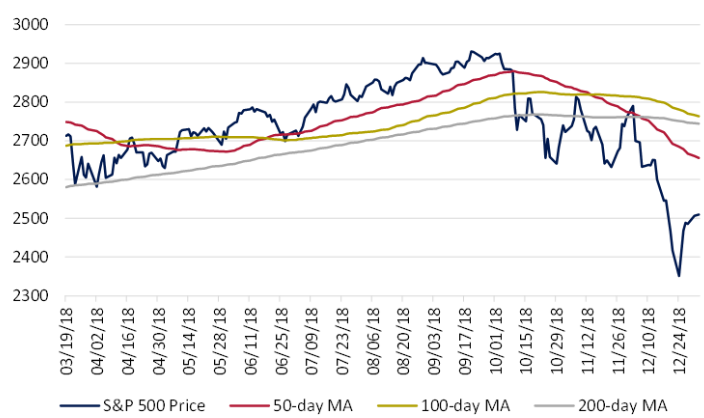
What do we mean by trend conditions? Let's look at the Figure 1 chart, which shows the S&P 500 Index relative to key moving average prices, to help determine the equity market's current condition. In some of our work, we use an asset's price (in this case an equity index), relative to key moving averages of that price, to define whether a market is strong or weak, and we can make investment allocation decisions accordingly.

In this case, the S&P 500 Index price is below its 50-day (red line), 100-day (gold line), and 200-day (gray line) moving averages; all negative signals when one is studying price trend. Moreover, the 50-day moving average is below the 100-day moving average, and also below the 200-day moving average; two more indications that help confirm a negative technical condition. Again, in our work, we tend to be more cautious with our allocations when these or similar conditions occur. To us, this helps illustrate what we refer to as technical weakness in the market.

***Price moving averages are basic tools that eliminate day-to-day price noise and help users focus on trend.***

**Figure 1: S&P 500 Index Price with Moving Averages**

Source: Bloomberg; MA = moving average




Until, this technical condition changes, we believe investors should respect this price trend and allocate assets cautiously. We are aware, however, that technical conditions can indeed change rather quickly in today's market, and at HB Retirement our investment process is equipped to move in accordance with both positive and negative trends. Meanwhile, the technical weakness and some fundamental uncertainty has combined to give us a degree of market volatility we have not seen in a while. In the fourth quarter, the 13.5% loss for the S&P 500 Index was the worst quarterly performance since Q3 2011. Until trend conditions improve and better fundamental visibility becomes available, investors may want to ensure they are prepared for more volatility ahead.

### Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

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*Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.*

*There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.*

*Stock investing involves risk including loss of principle.*

*The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.*

*Precious metal investing involves greater fluctuation and potential for losses.*

*Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.*

*Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.*

*The MSCI EAFE Index is a free float –adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.*

*The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.*

*The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing the major sectors of the U.S. economy.*

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