# MONTHLY MARKET UPDATE

November 2018

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LAMCO ADVISORY SERVICES, INC.

## November 2018 - Broad Economic News |

As expected, volatility has returned to the market. Year-to-date gains during November were erased by late in the month declines before quickly bouncing back as news coming out of the G20 summit in Buenos Aires seemed positive. The S&P 500 Index ended on a year-to-date basis as of November 30 up 5.1%. The VIX, often referred to as the "fear index", measures the expected price fluctuations in the 30-day S&P 500 Index options. This market volatility measure jumped in early October and continued at a heightened level through most of November. VIX levels generated this quarter have not been seen since early 2016. While volatility in the market can be unsettling, we still haven't experienced anything out of the norm. On average, investors in the stock market can expect a 5% correction every 51 trading days and a 20% correction every 630 days. At the end of November, we have exceeded the latter statistic by more than 1,700 days. The lower levels of volatility experienced over the last couple of years is what has been unusual. Unwarranted media hype using terms like "plunge", "steep decline" and "markets in a freefall" has not helped investor sentiment and has made for a challenging environment for cooler heads to prevail.

## Tariffs and Trade |

A regional economic summit ended a couple of weeks ago with a level of animosity, as China moved to a more aggressive posture. This seemed to change abruptly based on reports coming out of the G20 summit. As the back and forth in trade negotiations moves forward, so too will fluctuations in the market. However, our overriding expectations continue to be that responses from the US and it's trading counterparts will remain measured.

## Rising Interest Rate and a Flattening Yield Curve |

The Fed is scheduled to meet on December 18-19, with the expectation that a final quarter point rate hike for 2018 will occur. Only a couple weeks ago was it widely expected that the Fed would continue increasing rates three to four times in 2019. This perspective also changed abruptly this month when Fed Chairman Powell reversed earlier language from a few weeks prior when he stated interest rates were "a long way from neutral" to now indicating that rates were "just below neutral" absent any activity. With "neutral" being a level that neither speeds nor slows growth. The Fed's continued overriding goal has not changed and that is to bring rates in line with more historically normal levels. Doing so will help the economy longer term, but with the potential for short term stress. We are watching the position of the yield curve closely – currently it is notably flat. If the yield curve inverts in a meaningful way (where short-term interest rates are higher than long term interest rates) we will have a solid signal that the potential for a recession is on the way.

## Falling Oil Prices |

Starting in October, the decline in oil prices has contributed to global investor concerns. Over six weeks, prices per barrel have dropped by $20, the biggest decline since early 2015. While this leads to lower gas prices at home and is helpful to U.S. consumers, it could lead to broader global economic problems. About 40% of global GDP consists of emerging market economies that rely on oil and commodity production. Again, there is a delicate balance between the benefits of lower energy prices and the detriment of a decreasing GDP in energy producing nations. A slow-down in these countries can and has historically extended to other industries due do decreasing consumer demand. Oil exporting countries will cut spending and experience lower economic growth when oil prices tank (no pun intended).

## Summary |

We continue to believe that global economic tailwinds exceed headwinds; however, there are clear indications that the tailwinds are beginning to diminish. Volatility is increasing, yields are rising, and Central Banks are beginning to reduce their balance sheets. Benefits from this year's tax cuts and spending at the federal level have given the domestic economy a solid boost, which should continue over the near term. The stimulus from tax cuts will continue to offset the economic impact of rising interest rates. We don't believe the recent correction experienced in November is a sign that the U.S. expansion is coming to an end. However, we do believe it is an indication of how susceptible the economy is to difficult news that headwinds are building.

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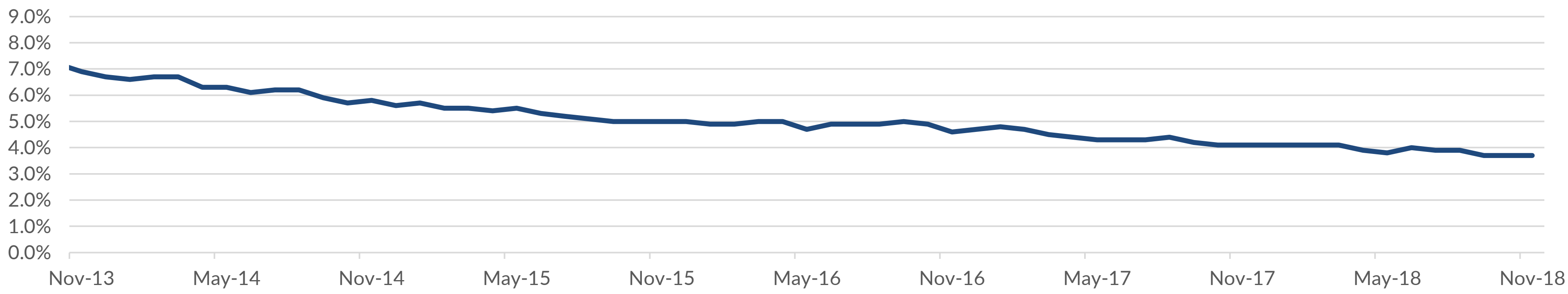
## Unemployment Rate




## Equities

| | November Return |
|---|---|
| S&P 500 TR USD | 2.04% |
| Russell 1000 TR USD | 2.04% |
| Russell 2000 TR USD | 1.59% |
| MSCI ACWI GR USD | 1.51% |
| MSCI EAFE GR USD | -0.11% |
| MSCI EM GR USD | 4.13% |

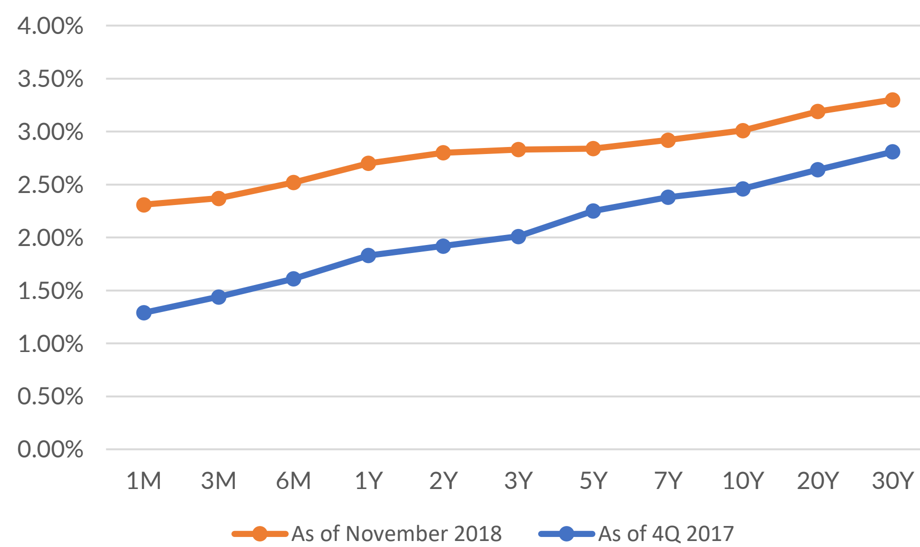
## Equity Style Box

| | Value | Core | Growth |
|---|---|---|---|
| Large | 3.26% | 1.87% | 0.64% |
| Mid | 2.40% | 2.46% | 2.54% |
| Small | 1.61% | 1.59% | 1.56% |

## Fixed Income

| | November Return |
|---|---|
| ICE BofAML US 3M Treasury Bill | 0.21% |
| Bloomberg Barclays US Govt/Credit 1-3 Yr | 0.29% |
| Bloomberg Barclays US Govt Interm | 0.68% |
| Bloomberg Barclays US Govt/Credit Interm | 0.45% |
| Bloomberg Barclays US Govt/Credit | 0.47% |
| Bloomberg Barclays US Agg Interm | 0.61% |
| Bloomberg Barclays US Agg Bond | 0.60% |
| Bloomberg Barclays Global Agg Bond | 0.31% |
| Bloomberg Barclays US Treasury | 0.89% |
| Bloomberg Barclays US Treasury US TIPS | 0.48% |
| Bloomberg Barclays US Corporate IG | -0.17% |
| Bloomberg Barclays High Yield Corporate | -0.86% |
| Bloomberg Barclays Municipal | 1.11% |
| Bloomberg Barclays Municipal 7 Yr 6-8 | 1.10% |

## Yield Curve




*Data Source: Morningstar, Federal Reserve; LAMCO Advisory Services, Inc.*

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