DNB FIRST Wealth Management

Investment Commentary Q4 2018

The U.S. equity markets fell sharply during the fourth quarter of 2018 as investors shifted assets to safer investments due to mixed signaling from the Federal Reserve concerning the direction of interest rates, U.S. government dysfunction, and global trade concerns. Large, Mid, and Small Cap stocks fell 13%, 15%, and 20% respectively. For the 12-month period ended December 31, 2018, Large, Mid, and Small Cap stocks fell 4%, 9%, and 11% respectively as investors sold shares in response to concerns about future U.S. economic growth, given the issues noted above. December 2018 was the worst "December" in the U.S. stock market since 1931 as the U.S. government was in the midst of enduring the longest shutdown in its history.

International Developed-Market stocks fell over 13% during the fourth quarter and over 12% for the 12-month period ended December 31, 2018 due to continued uncertainty about Brexit negotiations between the United Kingdom and the European Union. Emerging Market stocks fell over 7% during the quarter and 14% for the year due to political unrest in South America, lower capital inflows into emerging market countries, and economic weakness in Asia.

U.S. bonds rose 1.6% during the last quarter of 2018 as investors poured assets into safer fixed income investments in response to global stock market volatility. U.S. Treasuries rose over 2% during the quarter and 1% for the full calendar year. U.S. Corporate Bonds fell 2% during the year due to investor concerns about the U.S. economy. International bonds fell 2% due to lower capital inflows into Eurozone debt. Emerging Market debt fell over 4% during 2018 as South American countries continue to experience significant political unrest and currency fluctuations.

The U.S. economy is projected to have grown approximately 3% during 2018 due to stronger corporate earnings, higher wages and consumer spending, and consistent labor growth. We believe that future U.S. economic growth will be dependent on clear and transparent trade, fiscal, and monetary policies. The Trump Administration is actively seeking a trade agreement with China that will provide more access for U.S. firms to Chinese consumers and lower the $400 billion annual trade deficit with China, the second largest economy in the world. According to Forbes, total trade between the two countries reached a record level of $670 billion in 2018. We also believe that U.S. fiscal policy will be a key factor for the future of the U.S. economy. Some economists project that the Tax Reform Act of 2017 added approximately 1.0% to U.S. Gross Domestic Product ("GDP") in 2018 due to lower corporate taxes and higher capital spending. We believe that U.S. infrastructure, tax, and healthcare legislation will be critical to the U.S. economy as it moves to the later stages of its business cycle. U.S. political dysfunction may create more uncertainty during the beginning of 2019 as Congress attempts to avoid a second shutdown in February and enters into a government debt ceiling debate in March.

The Eurozone economies continued to experience declining growth due to uncertainty regarding Brexit discussions between the United Kingdom and the European Union. There is still no clear direction of Brexit 30 months after the referendum vote in June 2016. According to RTT News, the overall Eurozone economy grew 1.8% during 2018. The 2019 economic outlook for the region was lowered to 1.4% due to weakness in the Chinese economy, Brexit uncertainty, and continued geopolitical concerns throughout the region. Emerging Market economies grew modestly during 2018 as South American and African economies experienced significant currency fluctuations and capital outflows due to political dysfunction, lower commodity prices, higher U.S. interest rates, and a stronger U.S. dollar.

We added a Market Neutral position to our client portfolios as we believe market volatility will persist throughout 2019. We believe that a disciplined investment process that includes a diversified mix of investments and consistent, lower-cost managers will provide lower portfolio volatility and strong investment performance for our clients.

As always, we welcome your thoughts and concerns. Please contact your DNB First Wealth Management Advisor to discuss your portfolio in further detail.