BULLS&BEARS

By: L. Scott Rush, CFA
V.P., Sr. Trust Investment Officer

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And the Pendulum Swings

If we let our minds drift back to the beginning of 2018, we could perhaps picture ourselves relaxing with a cup of coffee, reminiscing about how wonderful the investment world was in recently ended 2017. In the scheme of things, equity investors did not have much to complain about. After all, the S&P 500 completed the year with a total gain of over 21%. Better yet, the ride was almost of the river boat variety rather than a more tortuous roller coaster that many investors were conveniently forgetting was closer to the norm. Indeed, for the entire year, there was not a single day in 2017 that the S&P 500 moved three percent or better, up or down! While that may not seem so strange to most, that phenomenon had last occurred in 1964.

Then, in 2018, the markets not only made a swing back toward more "normal" volatility, in some ways it overshot, as pendulums often do. For starters, after an exciting run up in early January, the S&P 500 slapped investors with a 10% correction in a short 9-day window, something that had never happened before. So much for the "now we know" infrequent smooth rides are not the norm.

One Step Forward…

Even the old aphorisms seemed to fail for investors this past year. The strong start in January was supposed to signal a strong year, according to the tea leaves…not so this past year. The results of an old NFL team winning the Super Bowl (Go Eagles!) is to signal a bull market…didn't work. Even the "sell in May" axiom that is meant to protect investors from the often uncertain summer months malfunctioned… the third quarter, up 7.2%, was the best quarter of the year. So, at the end of September, with stocks up 10% on a year-to-date basis, the prospect of finishing the year out on the back of the historically strong winning percentage for the fourth quarter gave investors a great deal of hope, with perhaps a dose of hubris thrown in. The result was an eye-opening drop that took the S&P 500 into negative territory for the year (i.e., down 4.38%), despite a late attempt at a year-saving Santa Claus rally.

Wrestling Match Continues

While the aforementioned discussion helps to bring us up-to-date on a year that many may prefer to forget, investors tend to quickly loose interest in history, preferring to focus more on what might be around the next corner. Unfortunately, we are left starting the year watching a sometimes bloody wrestling match that has been going on for some time now. On the side of the Bears, a weakening housing sector, a pertinacious trade war with China, rising interest rates (with the ever concerning inverted yield curve debate) and the agitation of government funding/border wall deliberations all serving the purpose of creating fear and uncertainty. In the Bulls corner, good GDP growth, strong labor markets, persistent earnings growth and recently improved valuation measures (i.e., cheaper stock prices) have all the appearance of characteristics that are diametric to those normally seen in bear markets.

At this point, fourth quarter performance has given the edge to the fear-favoring bears. However, we would point out that most of the above noted "advantages/tools" that have tilted the bias to weak markets tend to be short-term in nature, whereas the bull case tends to be supported by fundamental factors that have a more long-term impact on markets. The current environment suggests to us that it may take some time to "work through" these short-term challenges before the fundamentals take over. Perhaps a little more caution and a good dose of patience will be sensible as we move deeper into the new year.

Market Indicators

12/31/18	Year-to-Date Change
S&P 500	-4.38%
NASDAQ	-2.84%
Russell 2000	-11.01%

Interest Rates	12/31/18	12/31/17
10-Year Treasury Note	2.68%	2.41%
3-Month Treasury Bill	2.45%	1.39%

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