

# **The Concord Advisory Group, Ltd.**

## *December 2018 Market Highlights*

### *“Almost Bear Market”*

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## Commentary: “Almost Bear Market”

The longest bull market in history peaked on September 20, 2018. From September 20<sup>th</sup> through year-end, the S&P 500 fell 14%, shy of the 20% level required for the classification “bear market”. Bear markets are shorter and more intense than bull markets as stocks sell off much faster than they rise. From the market low on March 9, 2009 until its recent zenith on September 20<sup>th</sup>, the cumulative gain on the S&P 500 was an exceptional 429%. The subsequent 14% drop from the peak over the last three months wiped out 17% of the gains earned in the preceding nine years. The asymmetry in the size and speed of sell-offs of bear markets relative to bull markets necessitated raising cash and rebalancing gains into more conservative investments during the bull market run. If this modest sell-off persists, investors should start looking for opportunities to add risk when markets are cheap (more on this later).

There are many potential causes for the recent turbulence in the markets, but the removal and reversal of accommodative monetary policy is most prominent. Financial markets and the economy are linked, but that linkage weakened following the financial crisis. In the post-crisis period, low interest rates enabled companies to repurchase large amounts of their own stocks. Also, asset purchases by the Federal Reserve and other central banks provided excess liquidity that found its way into financial assets. Now, the economy has improved, prompting the Fed to tighten monetary policy, and financial assets are suffering. In fact, in the strange market dynamic that we see, the stock market may actually welcome some negative economic news, because it may dissuade the Federal Reserve from raising short-term interest rates this year.

Last year was challenging for investors, as almost every major asset class, not just stocks, underperformed cash. The “almost bear market” in stocks has created a more attractively priced market, but has not yet created glaring bargains, and risk is higher. Given the length and strength of the last bull market and the observation that the average cumulative loss in bear markets is 33%, stocks could potentially continue to decline. Rebalancing back into equities is appropriate, but it is likely too early to start additional buying into the market weakness until valuations look inexpensive.

The prevailing stress in financial markets reinforces our view that interest rates are going to remain below historic normal levels for the foreseeable future. The high levels of global debt, the reliance on credit to fuel growth, and the aging demographics in developed economies all contribute downward pressure on interest rates. In an investment climate with low interest rates as the first building block of returns, owning risky assets, including equities and credit should be a successful strategy. Even better is buying them after a sizable retreat in valuations, a prospect that helps make the market turmoil tolerable.

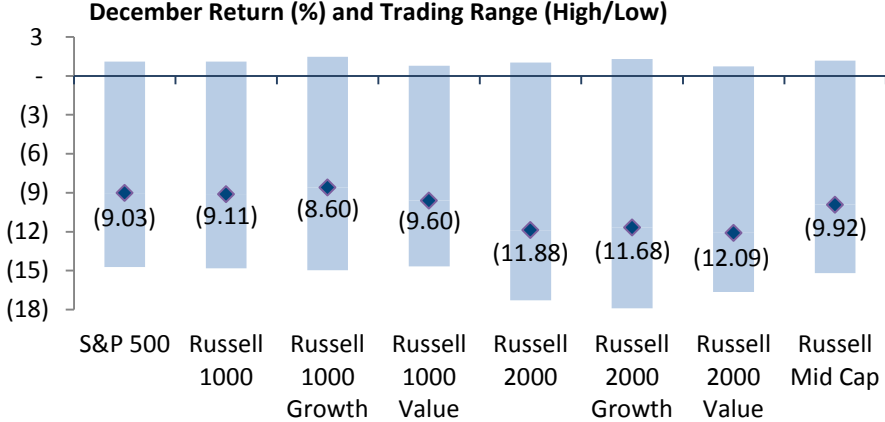
| Equities                    | Dec-18 | Sep-18 | Dec-17 | Dec-16 |
|-----------------------------|--------|--------|--------|--------|
| S&P 500 Forward (P/E)       | 15.4   | 18.0   | 20.0   | 18.9   |
| Russell 2000 (P/E)          | 22.6   | 27.4   | 34.6   | 31.7   |
| MSCI ACWI ex US (P/E)       | 12.3   | 13.7   | 15.6   | 15.8   |
| VIX "risk" (Index)          | 25.4   | 12.1   | 11.0   | 14.0   |
| Fixed Income                |        |        |        |        |
| Libor (%)                   | 2.81   | 2.40   | 1.69   | 1.00   |
| 2-Year Treasury Yield (%)   | 2.49   | 2.82   | 1.88   | 1.19   |
| IG Corporate OAS (bps)      | 153    | 106    | 93     | 123    |
| High Yield YTW (%)          | 7.95   | 6.24   | 5.72   | 6.12   |
| Leveraged Loan Price (\$'s) | 93.84  | 98.61  | 98.05  | 98.08  |

\*All P/E ratios are forward from Bloomberg estimates.

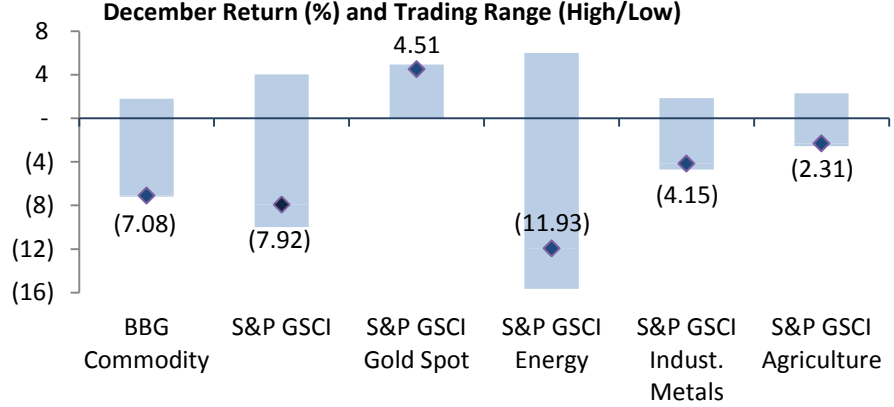
# Concord Advisory Group: December 2018 Market Highlights

## Monthly Charts

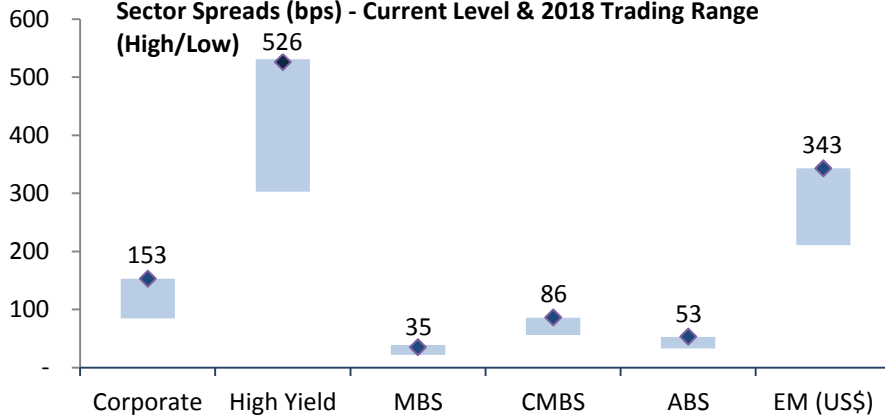
**U.S. Equities:** U.S. equities posted their worst monthly performance since 2008. The market declines are attributable to a slowing global economy, continuing trade disputes and tightening monetary policy.



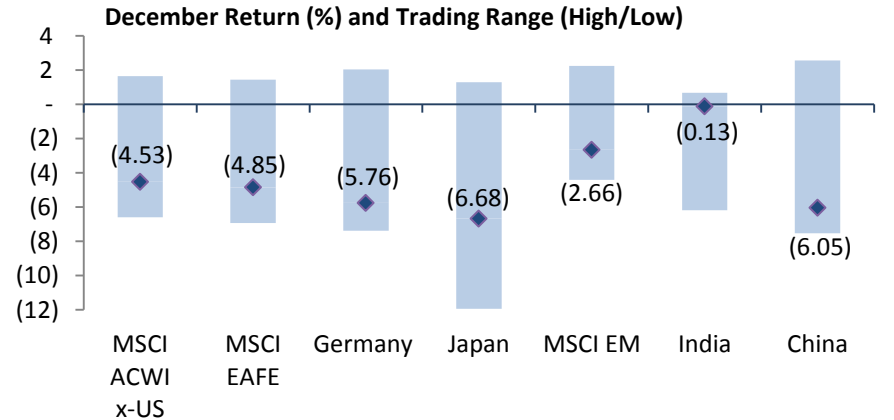
**Commodities:** Commodities prices declined in December, led by energy and steep declines in oil and natural gas prices. Gold was a notable outlier for the month, as investors sought the safe haven asset.



**Fixed Income:** Except for the very front of the yield curve, interest rates declined in December. Continued widening of credit spreads caused corporate bonds to underperform Treasuries.



**International Equities:** In a turnaround from recent months, international equities fared better than U.S. markets. Emerging market equities outpaced non-U.S. developed stocks.

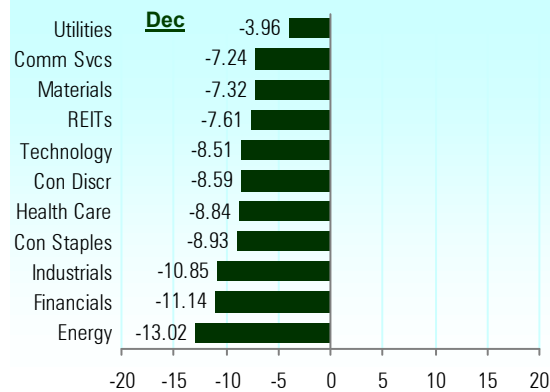


# Concord Advisory Group: December 2018 Market Performance

| Equity Markets      | Past Month | Past 3 Months | YTD     | 1 Yr    | 3 Yrs  | 5 Yrs  |
|---------------------|------------|---------------|---------|---------|--------|--------|
| S&P 500             | -9.03%     | -13.52%       | -4.39%  | -4.39%  | 9.26%  | 8.49%  |
| Russell 1000        | -9.11%     | -13.82%       | -4.79%  | -4.79%  | 9.09%  | 8.21%  |
| Russell 1000 Growth | -8.60%     | -15.89%       | -1.52%  | -1.52%  | 11.15% | 10.40% |
| Russell 1000 Value  | -9.60%     | -11.72%       | -8.26%  | -8.26%  | 6.96%  | 5.95%  |
| Russell MidCap      | -9.92%     | -15.37%       | -9.06%  | -9.06%  | 7.04%  | 6.26%  |
| Russell 2000        | -11.88%    | -20.20%       | -11.02% | -11.02% | 7.36%  | 4.41%  |
| Russell 2000 Growth | -11.68%    | -21.65%       | -9.30%  | -9.30%  | 7.24%  | 5.14%  |
| Russell 2000 Value  | -12.09%    | -18.67%       | -12.87% | -12.87% | 7.37%  | 3.61%  |
| MSCI ACWI           | -7.04%     | -12.75%       | -9.41%  | -9.41%  | 6.60%  | 4.26%  |
| MSCI World          | -7.60%     | -13.41%       | -8.71%  | -8.71%  | 6.31%  | 4.56%  |
| MSCI ACWI Ex-US     | -4.53%     | -11.47%       | -14.20% | -14.20% | 4.48%  | 0.67%  |
| MSCI EAFE           | -4.85%     | -12.53%       | -13.79% | -13.79% | 2.87%  | 0.53%  |
| MSCI EM             | -2.66%     | -7.47%        | -14.58% | -14.58% | 9.25%  | 1.65%  |
| Bloomberg Commodity | -6.89%     | -9.41%        | -11.25% | -11.25% | 0.29%  | -8.80% |

| Fixed Income Markets                    | Past Month | Past 3 Months | YTD    | 1 Yr   | 3 Yrs  | 5 Yrs  |
|---|------------|---------------|--------|--------|--------|--------|
| Barclays Capital Aggregate              | 1.84%      | 1.64%         | 0.01%  | 0.01%  | 2.06%  | 2.52%  |
| Barclays Capital Global Aggregate       | 2.02%      | 1.20%         | -1.20% | -1.20% | 2.70%  | 1.08%  |
| Barclays Capital Intermediate Aggregate | 1.50%      | 1.80%         | 1.04%  | 1.04%  | 1.33%  | 1.32%  |
| Barclays Capital Universal              | 1.56%      | 1.16%         | -0.26% | -0.26% | 2.56%  | 2.72%  |
| Barclays Capital Government             | 2.13%      | 2.55%         | 0.89%  | 0.89%  | 1.41%  | 1.99%  |
| Barclays Capital Credit                 | 1.50%      | 0.01%         | -2.11% | -2.11% | 3.16%  | 3.21%  |
| Barclays Capital Municipal              | 1.20%      | 1.69%         | 1.28%  | 1.28%  | 2.30%  | 3.82%  |
| Barclays Capital High Yield             | -2.14%     | -4.53%        | -2.08% | -2.08% | 7.23%  | 3.83%  |
| Barclays Capital Mortgage               | 1.81%      | 2.08%         | 0.99%  | 0.99%  | 1.71%  | 2.53%  |
| Barclays Capital 1-3 Yr Gov/Credit      | 0.78%      | 1.18%         | 1.60%  | 1.60%  | 1.24%  | 1.03%  |
| Citigroup 3-Month Treasury Bill         | 0.20%      | 0.57%         | 1.86%  | 1.86%  | 0.99%  | 0.60%  |
| Citigroup World Govt Bond               | 2.39%      | 1.75%         | -0.84% | -0.84% | 2.69%  | 0.77%  |
| Barclays Capital U.S. TIPS              | 0.55%      | -0.42%        | -1.26% | -1.26% | 2.11%  | 1.69%  |
| ML Invest Grade Convertible             | -3.67%     | -3.19%        | 3.50%  | 3.50%  | 12.64% | 10.93% |

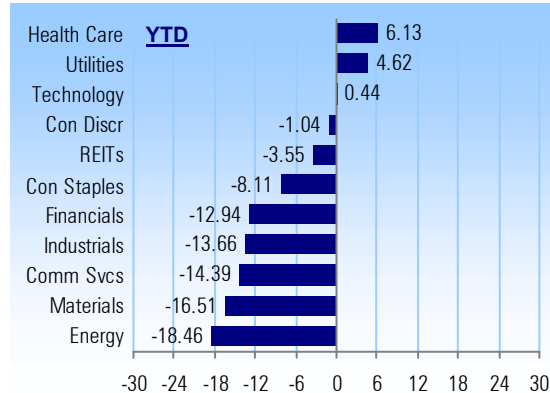
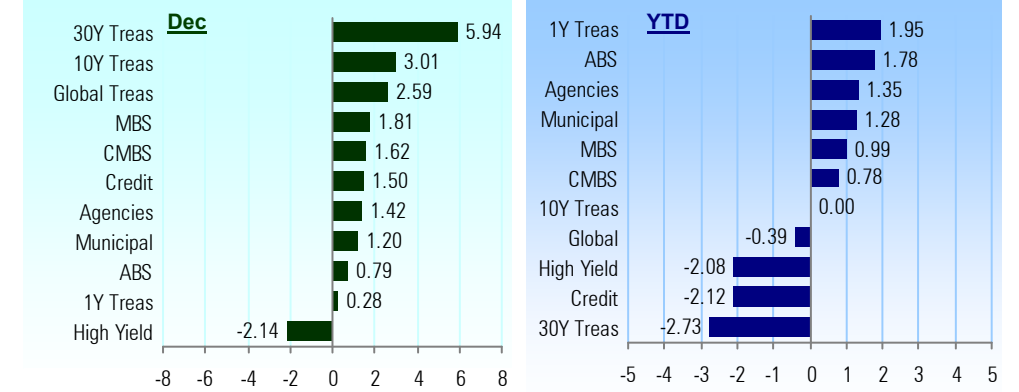
## Equity Sector Returns (%)



## Equity Style Returns (%)

|       | Value  | Core   | Growth |
|-------|--------|--------|--------|
| Large | -9.60  | -9.11  | -8.60  |
| Mid   | -10.50 | -9.92  | -9.07  |
| Small | -12.09 | -11.88 | -11.68 |

## Fixed Income Sector Returns (%)



|       | Value  | Core   | Growth |
|-------|--------|--------|--------|
| Large | -8.26  | -4.79  | -1.52  |
| Mid   | -12.29 | -9.06  | -4.75  |
| Small | -12.87 | -11.02 | -9.30  |

## Treasury Yield Curve

