

Volatility Abounds

The market over the past weeks has endured noteworthy declines and increased volatility. While the U.S. economy continues to be fundamentally strong, we do see some signs of slowing compared to the strong growth exhibited earlier this year. We do not see this as an end to the business cycle but we do anticipate that growth next year will be slower than it was in 2018. This year has benefited from the additional stimulus of corporate and personal tax cuts, which was evident in the 2Q and 3Q GDP numbers. This recent market correction (note not a bear market) is a result of several things:

- 1) Continued concern regarding trade negotiations with China.
- 2) The fear of the Federal Reserve Open Market Committee raising rates more than needed which increases the probability of a recession in late 2019.
- 3) The continuing saga surrounding Brexit and the impact on global growth.
- 4) Resetting of economic growth and earnings growth expectations for 2019.
- 5) Slower global growth being seen in the most recent economic releases.

There has also been a dramatic rotation in favored stock sectors. Technology and Communication Services have been the darlings of Wall Street for the majority of 2018 and led the market higher. As earnings releases and growth expectations have been revised, the most favored sectors have moved to a corrective phase, driving the overall market to test the lows set earlier this year.

We do believe that caution is warranted in this current environment and as such, the portfolio allocations have moved closer to a neutral position. We remain tilted slightly in our equity portfolios to growth over value as we don't see this as an end to the economic cycle but rather a pause. While the most recent inflation numbers have been slightly higher than 2%, we do believe the upcoming releases will demonstrate lower inflation levels due to falling oil, copper and lumber prices. As a result of our current outlook, we feel it is appropriate to eliminate our inflation hedge in commodities at this time. We continue to stay the course but remain cautiously optimistic. We are continuously monitoring the situation and will become more defensive if it is appropriate.

We know these uncertain times cause angst in many. Please do not hesitate to reach out to your relationship manager with questions.

We wish all of you a blessed and happy Thanksgiving!