

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) rebounded in January, closing at 24,999, up 7.17% for the month. The S&P 500 ended January at 2,704, up 7.87% so far for 2019. The NASDAQ Composite finished January up 9.74% for the month. Small company stocks, as measured by the Russell 2000, ended January at 1,487, up 11.19% for the month. Industrials (+11.42%) and Energy (+11.11%) were the best performing sectors in January.

"Their reversal suggests that investors who were bracing for a sharp slowdown in U.S. economic activity have been soothed by cautious comments from the Federal Reserve, signs of strength in the labor market and data pointing to tepid inflation." Amrith Ramkumar, Jan. 31, 2019, "U.S. Stocks Post Best January in 30 Years," *The Wall Street Journal*.

Tips for Navigating Choppy Markets

After closing down -19.78% from its September high on Christmas Eve 2018, the S&P 500 has since gained +15.01% from that low through January. Such rapid reversals illustrate both the volatility apparent in today's markets, and the difficulty and danger of attempting to time the market's moves. As the holidays ended and investors reviewed their year-end statements, many understandably experienced an array of emotions when seeing the declines experienced in December. At such times, the reflex to reduce risk and sell out of equities is strongest, although typically those are the worst times for such action. A 2016 Vanguard study analyzed the performance of 58,168 self-directed IRA investors over a tumultuous 5-year period in the equity markets. The study compared investors who made any exchanges in their portfolio to those who did not, and found that the average investor who made even one exchange over the period trailed their peers by -1.31% versus those who stuck to their allocation.

Wall Street also understands investor emotions during times of increased volatility, and often takes these opportunities to ramp up the marketing of 'new' ideas and strategies which may offer above-market returns with reduced or eliminated downside risk. Our experience is that such pitches often involve opaque or overly complex structures, high fees, hidden fees, illiquidity, rosy assumptions, hidden risks, the presumption of a crystal ball, or all of the above. Broad diversification, low fees, and a disciplined long-term asset allocation have empirically been observed most often as the best practices for investment success. While our own emotions can sometimes be our worst enemy in investing, being aware of this can help in times of uncertainty. The value of an objective and professional advisor is also more pronounced in such times. We are always happy to have a conversation if you or your committees have questions or concerns.

"That said, the Fed's declarations — that it will be patient in raising rates and flexible if its balance-sheet reduction proves disruptive — removed one of the two clouds overhanging the markets, paving the way for their January rebound. The other key risk, of a full-blown U.S. - China trade war, also could be tamped down if Trump's optimism about a deal to stave off a sharp jump in tariffs proves justified." (Randall W. Forsyth, February 4, 2019, "Up & Down Wall Street," *Barron's*)

The Road Ahead

While January's rally provided some welcome support to the markets, and reduced the severity of December's decline, what's driving the market movement is important as we look ahead. Comments by the Federal Reserve, taken by many to indicate that interest rates may not increase in 2019 as much as originally thought, have been credited with much of the positive market sentiment this month. Monetary policy is ever changing however, and sharp swings from Fed comments have gone both positive and negative in recent months. This, along with the growing list of unresolved economic and political issues facing markets, mean investors should remain prepared for additional volatility. Short-term cash needs should be planned for, and asset allocations should reflect long-term goals and time horizons.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 12/31/2018	CLOSE AS OF 01/31/2019	CHANGE PREVIOUS MONTH END	2019 YTD % CHANGE
Dow Jones Industrial Average	23,327.46	24,999.67	+1,672.21	+7.17%
S&P 500	2,506.85	2,704.10	+197.25	+7.87%
NASDAQ Composite	6,635.277	7,281.738	+646.46	+9.74%
RUSSELL 2000	1,348.56	1,499.42	+150.86	+11.19%
Fed Funds Rate	2.25%- 2.50	2.25% - 2.50%	UNCHANGED	
2-Year Treasury	2.48%	2.45%	-.03%	
10-Year Treasury	2.69%	2.63%	-.06%	
Crude Oil \$ per Barrel	\$45.41	\$53.79	+\$8.38	+18.45%
Gold \$ per Troy oz.	\$1,281.30	\$1,325.20	+\$43.90	+3.43%
UK Pound in U.S. \$	\$1.2736US = 1£	\$1.3155US = 1£	\$ WEAKER	+3.29%
Euro in U.S. \$	\$1.1432US= 1€	\$1.1475US= 1€	\$ WEAKER	+0.38%
Canada \$ per U.S. \$	\$1.3658C \$1.00 US	\$1.3133C \$1.00 US	\$ WEAKER	-3.84%
Japan Yen per U.S. \$	109.715¥=\$1.00 US	108.83¥=\$1.00 US	\$ WEAKER	-0.81%



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