THE CAPITAL MARKETS

Presbyterian Foundation
NEW COVENANT TRUST COMPANY
Issue 1 | 2019

The Dow Jones Industrial Average (DJIA) ended 2018 at 23,327, down -8.66% in December and -5.63% for the year. The S&P 500 closed December at 2,507, down -9.18% for the month and -6.24% for the year. The NASDAQ Composite lost -9.48% in December, finishing down -3.88% in 2018. Small company stocks as measured by the Russell 2000 ended December at 1,349, down -12.05% for the month, dropping -12.18% for the year. Health Care (+4.69%) was the best performing sector in 2018, Energy (-20.50%) was the worst.

"'The market is trying to get a handle on a bunch of different uncertainty factors, and until then, we're going to see the wild up and down moves,' said Brad McMillan, chief investment officer at Commonwealth Financial Network." The Wall Street Journal, *U.S. Stocks Teeter Between Gains and Losses*, by Amrith Ramkumar, Jan. 2, 2019

Market Turmoil to End 2018 - Our Thoughts

The S&P 500 fell 14.28% in the fourth quarter, at one point closing down 19.78% from its September 20th high. The index ended with its worst calendar year performance since 2008, while having its worst December since 1931. Bonds finished the year essentially flat on a total return basis, while international equities had the worst performance of all, down 16.13% (MSCI ACWI ex US index) for 2018. The result is most investors experiencing some level of losses, as nearly every asset class moved in tandem downward for the year. Below we'll recap the drivers of the market weakness, cover the near term outlook, and provide our view on the best approach for investors navigating this environment moving forward.

Market sentiment shifted to negative in the fourth quarter, especially in December, although the risks attributable to the worry have been apparent most of the year. Interest rate increases penciled in by the Fed, skepticism a trade deal between the U.S. and China can be struck, slowing corporate profits, and most recently a partial government shutdown all contributed to the increase in uncertainty and stock sell-off. While some areas of the economy, such as housing, have meaningfully weakened this year - most economic readings continue to signal strength in the underlying economy. Unemployment remains near historic lows, annual GDP growth near 3% is the highest in a decade, and initial reports point toward a particularly strong holiday season for retailers. While the rates of increase in profits and GDP are expected to slow in 2019, positive growth is expected nonetheless. Uncertainty persists, however, with a government shutdown that could lead to increasingly severe economic consequences if prolonged, slowing growth internationally (especially in China), and ongoing volatility in the trade negotiations between the US and China. Market volatility is likely to persist as these issues remain unresolved. Good or bad news is expected to swing markets sharply one way or the other.

"The moves may be exaggerated, but we shouldn't lose sight of why the market got so crazy in the first place: economic uncertainty. Three months ago, the market appeared to be pricing in a strong economy and solid earnings into 2019 ... Now, stocks are pricing in a possible recession. The market will remain caught in a tug of war between those forces until the economic numbers and earnings confirm that one of them is true."(Barron's, *The Trader*, by Ben Levisohn, December 28, 2018

Things to Consider

In times like these, many investors feel the need to take action. Oftentimes, however, when the feeling to make a change in your portfolio is strongest, the benefit is weakest. Volumes of research, including that of Nobel Laureates and industry leaders, have shown that attempting to time the market and jump in and out of equities has led to consistent underperformance over time. Most experts agree that changes to your investment allocation should be driven by changes to your financial situation, life events, or changes to needs or goals - not by market swings. Importantly, not making a drastic decision *is* a decision, one we think we add value by helping you determine. If the time horizon for your investment is 10, 15, or 30 years in the future - we advise viewing the current volatility in the context of such a period.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 11/30/2018	CLOSE AS OF 12/31/2018	CHANGE PREVIOUS MONTH END	2018 YTD % CHANGE
Dow Jones Industrial Average	25,538.46	23,327.46	-2,211.00	-5.63%
S&P 500	2,760.17	2,506.85	-253.32	-6.24%
NASDAQ Composite	7,330.535	6,635.277	-695.258	-3.88%
RUSSELL 2000	1,533.27	1,348.56	-184.71	-12.18%
Fed Funds Rate	2.0% - 2.25%	2.25% - 2.50%	+0.25%	
2-Year Treasury	2.80%	2.48%	-.32%	
10-Year Treasury	3.01%	2.69%	-.32%	
Crude Oil $ per Barrel	$50.93	$45.41	-$5.52	-24.84%
Gold $ per Troy oz.	$1,226.00	$1,281.30	+$55.30	-2.14%
UK Pound in U.S. $	$1.2759US = 1£	$1.2736US = 1£	$ STRONGER	-5.85%
Euro in U.S. $	$1.1323US= 1€	$1.1432US= 1€	$ WEAKER	-4.80%
Canada $ per U.S. $	$1.3291C $1.00 US	$1.3658C $1.00 US	$ STRONGER	+9.01%
Japan Yen per U.S. $	113.55¥=$1.00 US	109.715¥=$1.00 US	$ WEAKER	-2.61%