

A Surprise Coronation

Historically speaking, September is most often the month when investor sentiment turns tepid on the prospect of increasing market volatility and potential equity downdrafts. Not so this time around as equity markets continued their stretch to new highs only to end abruptly and with markedly little supporting rationale on October 3rd. From then on, it was all about maintaining a cool head, keeping fingers off the sell button and expecting that continuing robust economic fundamentals would eventually trump nascent fear. Not until Christmas Eve did the markets find their trough before a much needed +6.6% SPX rally closed out the year. That said the damage was done. December registered its worst monthly stock market return in decades consolidating some (9.0%) and leading the S&P 500 down (13.5%) on the quarter and (4.4%) on the year.

International markets fared worse but in our mind, unlike in the US, for ascertainable reasons including calamity over trade uncertainties, tightening monetary conditions, and increasing uncertainty over how Brexit will play out for Britain and the EU by the March 2019 deadline. By 4Q, international equities had retrenched some (12.5%) to close 2018 at (13.4%). Concurrently, the global All Country World Index delivered similar results to post (12.7%) in 4Q and (8.9%) in 2018.

On the flipside, bond markets in general were entrenched in preservation mode enhanced by daily flights to quality during the volatile 4Q period. Credit quality and duration were the main enhancing differentiators across the tax exempt and taxable markets. In general, tax exempts delivered on average +1.7% in 4Q and +1.3% on the year while high quality taxables posted +1.6% and were roughly flat on the year. Lower quality corporates resulted in widening spreads and modestly negative total returns as “risk off” sentiment dominated all markets.

Interestingly enough, having vetted all asset classes for relative performance through the very volatile year end, in the final analysis, it was cash and equivalents that became king. That said, it was entirely a last minute coronation and one that caught the kingdom by surprise.