

What Happened?

- Early November saw a continuation of the “Risk Off” trade that began in October with the market continuing to drop in consecutive sessions.

- Beginning in late November we saw a bit of a reversal which led most major market indexes to finish positive for the month.

- What happened to cause this change?

- The Fed Chairman, Jerome Powell, spoke and indicated interest rates were close to neutral meaning the Fed may not have to raise rates many more times. This was welcome news to a market that was very concerned about the potential for the Fed to become too aggressive with their rate increases.
- The other major headwind for markets had been the trade war and tariffs. When it was announced that President Trump and the Chinese PM Xi Jinping would meet at the G-20 Summit to discuss a potential solution the market took that as a positive. It turns out that it was a positive with a “cease-fire” being declared (see more in the What’s Next section below).

- The other major market move, which you may have noticed at the gas pump, was that oil prices continued their free fall that began in October which saw crude benchmarks drop more than 30%.

Index	November	YTD 2018
S&P 500	2.0%	5.1%
Dow Jones	1.7%	3.3%
NASDAQ	0.3%	6.2%
Russell 2000	1.5%	-0.2%
EAFE	-0.1%	-9.4%
Emerging Markets	4.1%	-14.1%
Aggregate Bonds	0.6%	-1.7%
Gold	0.3%	-6.5%

Data from Morningstar as of 11/30/2018

Crude Oil



What Did We Do?

- As discussed in last month’s newsletter, we began to get more defensive in October which proved to be the correct decision and continued to be the right call for the first half of November.

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- Although the market looks better now than it did in October, we still recommend that most of our clients are at their neutral asset allocation. This means if your plan recommends you keep 60% in stocks, you should do just that rather than being over or underweight.
 - We continued our shift towards value stocks. For the last few months before October we had been overweight growth stocks, but as signs of a slowdown have emerged and the FAANG trade has weakened, we have taken some gains and have been neutral between growth and value stocks.
 - With the potential cease-fire in the trade war we are again looking at Emerging Market stocks which are currently trading at an almost 15 year low compared to US markets. There are other potential issues, and this cease-fire does seem to be somewhat flimsy, but we are actively monitoring this as we have maintained an underweight position so far this year.

What's Next?

- The two major headlines that caused much of the stock market volatility in October and early November were worries that the Fed would increase rates too aggressively, and fallout from trade-war and tariffs. As of today, both of those issues are somewhat resolved - for now.
- This leads us to be hopeful for a potential December rally. Last month I highlighted that December and January tend to be the strongest months for markets and unless one of those headlines change, or we see a new worry emerge, we have the potential for a positive market month.
- There are still some headwinds, particularly in some of the economic data. Housing data continues to be soft, corporate earnings seem to be peaking, and unemployment claims have been increasing. We will find out more when we receive the employment report on Friday, December 7th which could potentially be the next market moving data point.
- Overall, markets look better now than they did in October, but that does not mean we recommend diving headfirst into this market or selling out and hiding in safer assets. Depending on your specific situation we are recommending that most clients maintain their equity exposure for now, as these next couple months could potentially be positive with somewhat limited volatility. Given our fairly conservative outlook for 2019, these next few months could be one of the last chances for a relatively calmer market.

If you have any questions or would like to discuss how any of this could impact your portfolio, please contact Alex directly at Alex@AnfieldWealth.com.