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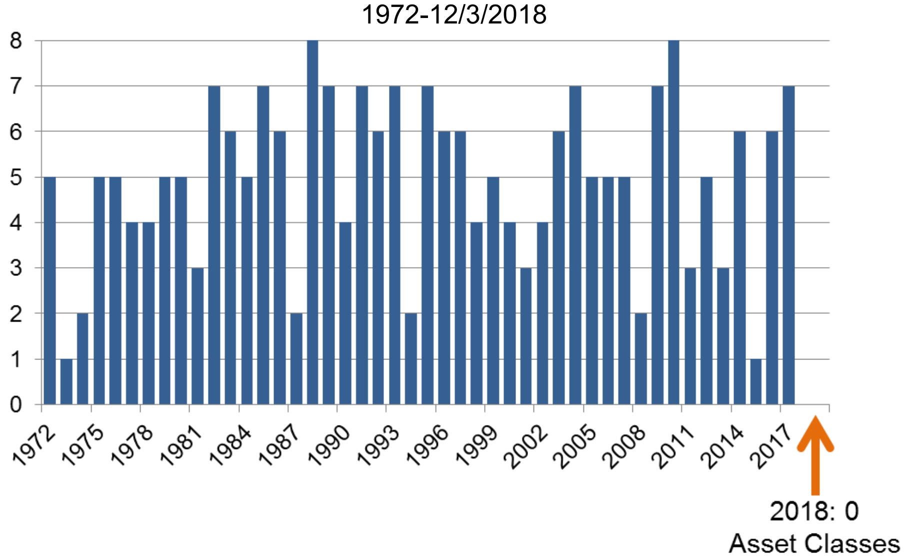
2018—The Year (so far) That "Nothing Worked"

Chart of the Month — December 2018

Every year there's something odd or weird about the market. Last year was the absence of volatility. This year the anomaly is that most asset classes are flat or down for the year. Ned Davis Research looked at eight broad asset classes and found that not a single one is on track to post a return greater than 5% for 2018. This is the first year since at least 1972 that this has happened[a].

Number of Assets Classes with a Greater than 5% Gain[a]

1972-12/3/2018

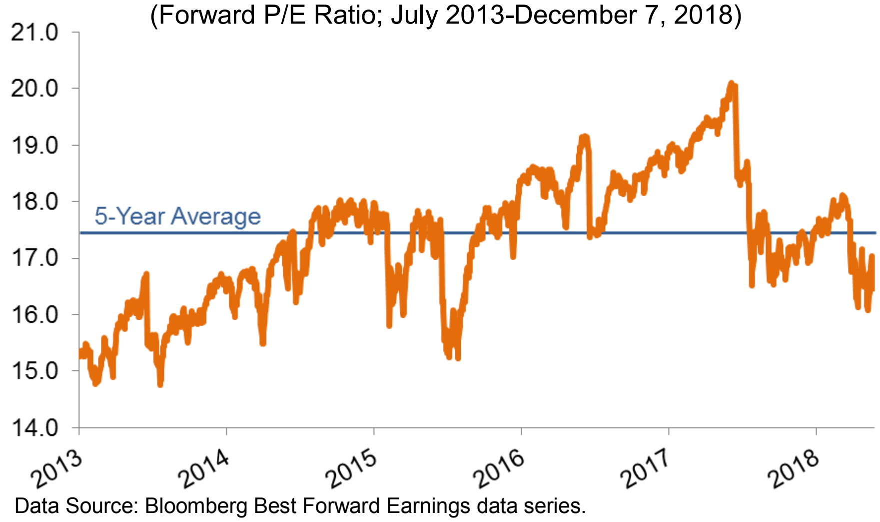


So far this year, the median return among these eight asset classes is -1.7% through December 3rd. This is a much more mild decline than the ugly bear markets experienced in 2008 (-37%) and 1974 (-22%)[a]. The question naturally follows, "is this recent downturn the beginning of a similar bear market?"

In a way, we've already had one. Lower corporate tax rates coupled with a strong U.S. economy has led to earnings growth of nearly 25% for companies in the S&P 500[b]. With the S&P 500 index about flat for the year[c], it can be argued we've had a bear market in *valuations*.

S&P 500 Valuation

(Forward P/E Ratio; July 2013-December 7, 2018)



Data Source: Bloomberg Best Forward Earnings data series.

a. Source: Ned Davis Research Group, "Nowhere to Hide", 12/3/18. Asset classes evaluated include the S&P 500 Total Return Index (TR), Russell 2000 TR, MSCI EAFE TR (Local), MSCI Emerging Markets TR (Local), Barclays Long-Term Treasury TR, Barclays U.S. Aggregate TR, S&P GSCI TR, NAREIT TR. Ibbotson data used prior to start dates for Russell 2000 and Barclays Treasury Index.
b. Source: Deutsche Bank Research, "After The Great De-rating", 11/30/18, Binky Chadha, Parag Thatte and Christian Arita.
c. Source: Bloomberg, through 12/10/2018.

As illustrated in the previous chart, the 5-year average for the S&P 500 is approximately 17.3 times earnings. At the beginning of 2018, the S&P 500 was valued at 20 times earnings. As earnings climbed but the S&P 500 price did not, the market's valuation has declined to about 16 times earnings[d]. That's a 20% drop, or bear market, in investor's collective willingness to pay for a future dollar of earnings.

That may be because investors feel less certain about the future. There are reasonable concerns regarding further Federal Reserve rate hikes, European political fissures and an unsteady trade relationship between the U.S. and China.

We have a cautious – not bullish and not bearish – view on the markets. Valuation always plays a key role in our analysis and we continue to monitor conditions to inform our positioning.

Market Performance[d]

Index	**November 2018**	**Year to Date** (1/1/18-11/30/18)	**One Year** (12/1/17-11/30/18)
S&P 500 Index	2.0%	5.1%	6.3%
MSCI EAFE Index	-0.1%	-9.4%	-7.9%
Barclays U.S. Aggregate Bond Index	0.6%	-1.8%	-1.3%
JP Morgan Global Aggregate Bond Index	0.5%	-3.1%	-2.7%
Bloomberg Commodity Index	-0.6%	-4.7%	-1.8%
Gold ($/oz)	0.6%	-6.2%	-4.1%

Notes and Disclosures

d. Source: Bloomberg