

Market Volatility and Outlook

By: Cyril M. Theccanat, Chief Investment Officer

January 2019

While equity markets rebounded in the final week of 2018 following steep losses for the month of December and the fourth quarter, the results for the full year were negative across risk markets. A confluence of events ranging from the trade issues with China and tightening monetary policy to concerns about slowing economic growth and the partial government shutdown have weighed on investor sentiment and caused market volatility to spike. The resultant flight to quality has pushed U.S. Treasury 10-year yields below 3%.

Despite the -5.2% return in 2018 for the broad U.S. equity market, the annualized return for the past 2, 3 and 5-year time periods has been between 7.1% and 9.0%, and the longer-term annualized return (10 years), which includes the Great Financial Crisis, is 13.2%. Also, although credit spreads have widened during this period of market volatility, it is important to note that the 183 bp spread widening in 2018 of the high-yield sector to 526 bp is still well below the 800+ bp spread levels reached during the Eurozone crisis in 2011 and the oil price collapse/China slowdown crisis in 2016. There appears to be much angst in the financial markets that the recent declines in the risk markets are a harbinger of an impending recession. Over the past 35 years, there have been 7 equity market corrections, averaging declines of -21%, without an accompanying recession. These equity market corrections took place during continued economic expansions. While economic growth is likely to be slower this year after the growth spurt in 2018 that was fueled by the \$1.5 trillion tax cut, Inflation is also declining. As a result, the Fed is likely near the end of its monetary policy tightening path. Low interest rates will provide a positive backdrop for risk markets.

As we have stated in our past commentaries, the U.S. administration's rhetoric on trade appears to be a political posturing position. A trade war is not a zero-sum game; it is, in fact, a negative-sum game whereby both sides on the trade issue lose. Therefore, it is in neither the United States nor China's best interest for the current conflict to turn into an all-out trade war. It is instructive to keep in mind how the initial conflict last year with Mexico and Canada over Nafta was resolved. The same reasoning can be applied to the current partial government shutdown. We have seen full government shutdowns in the past over strong disagreements about budgets between the White House and Congress. These past full shutdowns have not had a material impact on the U.S. economy.

Disclosure: This Capital Market Review, written by Consequent Capital Management, represents the opinions, investment strategies and views of Consequent Capital Management and is based on current market conditions and is not intended to interpret laws or regulations. The views expressed in this Capital Market Review are subject to change without notice. This Capital Market Review commentary is provided for informational purposes only, based upon information generally available to the public from sources believed to be reliable, and should not be construed as investment or legal advice nor is it meant to be a solicitation or offer to purchase any product or service. Readers are encouraged to consult with their investment, legal or tax professional before making any investment decisions. This Capital Market Review is not designed to be a comprehensive analysis of any topic discussed herein and should not be relied upon as the only source of information used for making investment



John C. Robinson
Chief Executive Officer
Tel: 404-883-2577
john@consequentcm.com

decisions. Consequent Capital Management believes the information contained in this material to be reliable but does not warrant its accuracy or completeness. Additionally, this Capital Market Review is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation, applicable risk factors, and/or particular needs of any individual client or investor and should not be relied upon as the basis for investment decisions. Past performance is not indicative or a guarantee of future results. Consequent Capital Management, LLC is registered with the U.S. Securities and Exchange Commission.