Volatility has presided over segments of 2018, with sharp bouts in February and December. The initial round arrived abruptly last February following a prolonged period of historically and eerily steady markets, stirred by inflation and wage growth concerns. An extended second round of volatility – October to year end, was driven primarily by weak overseas growth / a yield curve that is signaling recession (short rates higher than long rates) / lower oil prices and a shift in valuation for technology and internet stocks. Any sense of calm is unlikely to return in the early months of 2019. Earnings have been revised lower, global growth continues weak and global tensions continue. Trade relations with China and accelerating uncertainty regarding the UK's Brexit continue to weigh.

While there is increasing anxiety among investors, the drivers to the market selloff are fully factored into current prices. We have witnessed a rather dramatic turn higher over the last week, but not enough to make a recovery out of the steep losses, which have accelerated through much of December.

The International Monetary Fund IMF recently downgraded US growth rates from 2.9% for 2018, to 2.5% for 2019. The Federal Reserve has softened its tone to dovish. October had rates "a long way from neutral" to recent comments of "just below neutral". This Fed speak traslates to a less urgent need for continuing on the rate path of increases laid out earlier in the year. The step back from a hawkish tone is likely the result of flat growth for many economies overseas, particularly a pullback in growth from the 2nd largest economy, China.

Given all the negative factors painting a dark gloom over the market, a resolution of the tariff / trade negotiations with China is the most likely to provide the relief that will boost confidence, and hence equity markets.

The FAANG stocks: Apple, Amazon, Facebook, Netflix and Google have been leading the market decline. Earnings and/or their forecasts are coming in short, disappointing investors. All FAANGs have promptly moved more than 20% from their recent highs. Certainly not a source of confidence to offset the recent overall market negative sentiment.

With plenty of economic strengths remaining, it appears to this observer that an outsized portion of the downside has been created by political chaos – in the form of key departures from the Cabinet, a government shutdown, and geopolitical uncertainty. All the while Job growth remained robust in 2018. A recent read provides an unemployment rate of 3.7%, a 50 year low. 3q 18 GDP provided an astounding 3.4% annualized growth rate. The expansion is likely to slow significantly in 2019 with tighter financial conditions and a deceleration in fiscal stimulus. Recession is on the radar after a prolonged absence. While necessary and part of the business cycle, recessions vary in duration and severity. Historically, by the time a recession is officially declared, markets have already adjusted well in advance. We are seeing a deceleration in some key economic readings. Conditions may deteriorate or recover, and are dependent on a tremendous amount of factors whose outcomes are unpredictable.

It is critical to one's well being and financial objectives to remain focused on the benefits of long term, diversified investing. One caveat: liquidity requirements for short term events. As always, please keep in good communication regarding near term requirements. Growth and dividends compounding over time can provide significant benefits over other asset classes.

Best wishes for a wonderful 2019. Thank you. Will Ramsdell

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