Portfolio Management
Monthly update
Nov 2018

Good Riddance to the fall Meltdown!

S&P 500 August to November 28

Highlights

- US Fed back tracking on 2019 rate increases
- Fall Meltdown appears to be over
- Seasonality setting up strongly for 2019
- Bond yields settling down near term

Stocks continued to struggle most of November and sentiment is extremely bearish, providing a set up for a rally into the usually strong December- January period.

Leon Tuey, famed technical analyst stated in his November 25 comments the *"...sentiment backdrop is ideal. Results for the week ending November 21, the AAII Investor Sentiment Survey reported that Bullish sentiment dropped 9.8% to 25.3%, but Bearish sentiment jumped 11.2% to 47.1%. As sentiment is a contrarian indicator, the low level of Bullish Sentiment is most encouraging. Remember what Warren Buffett said: "Be fearful when others are greedy and be greedy when others are fearful." Clearly, investors are fearful."*

The main driver of the downturn was US Fed Chairman Jerome Powell's insistence that interest rates were nowhere near neutral and many more rate increases were coming. Since each rate rise takes 8-10 months to work its way into the economy and some indicators such as housing & auto sales were already deteriorating, the likelihood of a policy mistake seemed high, with markets beginning to factor in a global slowdown or worse. The old axiom "Don't fight the Fed" was prevalent.

A November 11 Barrons article entitled "The end of the Fed put" summed up this problem. Under more dovish Fed Chairs like Janet Yellen, economic & stock market weakness would immediately be countered with interest rate easing or at least talk of easing or slowing increases. Chairman Powell is somewhat different.

Brian Belski, our chief strategist believes this view is overdone as sell offs often overshoot and although earnings may slow from the heady pace, they are still strong.

Fed Chairman reverses his hawkish tone**: On November 28 Powell said ***"Rates are near neutral", a major reversal of his recent stance & the S&P 500 rose 2.22% that day.

While we expect a strong rally going into January & perhaps all the way into the early spring, we still have the China US trade war problem and US inflation pressures (wages) will continue to pressure interest rates. Therefore 2019 may be a good year to take advantage of seasonality by going more conservative in several months, depending on the magnitude of the rally and the state of the global economy.

Even though we don't see a recession on the horizon, the curtailment of Quantitative easing (the Fed reducing long term bond buying by $50B/month) is reducing liquidity & increasing volatility.

Bond yields should rise somewhat as the stock market improves giving us better opportunities to improve bond yields in the New Year.

Regards,

Scott Barnum, CFA
V.P. and Portfolio Manager

Don Behan, CFA
V.P. and Portfolio Manager

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