CBL
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MANAGEMENT
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# Market Brief

**November 14, 2018**

Market Snapshot

**Closing Values as of 11/14/2018**

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|---|---|
| **Dow** | 25,080 |
| **S&P 500** | 2,701 |
| **Nasdaq** | 7,136 |
| **Gold** | $1,212 |

With only 30 trading days left in 2018 the equity markets find  are in the middle of the second correction of the year.  What stands out most about this correction is that it has been led in large part by massive declines in the FAANG stocks and other big names that had been so strong during the February correction.  Although it isn't likely declines in the FAANG stocks will be the catalyst for the next major market decline, it will be hard for the markets to set significantly higher highs without participation from the tech giants.

Another interesting feature of this (and the February correction) is that the correction is occurring at a time the US economy is still very strong .  GDP growth is approaching 4%, unemployment continues to creep lower and job creation remains strong. Inflation remains low and wages are beginning to increase.   Not only are most economic indicators pointing toward a strong economy, thanks to the Trump tax cuts 2018 corporate earnings have been growing twice as fast as they were last year. With a strong economic backdrop, positive consumer sentiment and exploding corporate earnings you would expect the equity markets to be screaming to new highs, but that hasn't been the case at all. Rather than celebrate the economic expansion we have waited so long to enjoy traders are anticipating the next downturn.

Concerns that this years strong earnings represent peak earnings and fear that the global slowdown will turn the tide on our expanding markets have traders questioning the investing environment. The effects of the Trump tax cuts are expected to peak in the second quarter of 2019 removing the boost that companies currently receive.  It is broadly accepted that earnings growth will return to a more normal rate by mid year and may even grow more slowly by year end 2019.  An additional threat to corporate earnings is the unfilled need for skilled labor.  Many of the jobs being created require skills that American workers don't poses, making immigration of skill labor necessary. If a skilled workforce can't be provided corporate earnings will suffer. The current market volatility may be in anticipation of these headwinds.

Threats to the economy do exist and they will eventually lead us into the next recession.  In addition to the typical threats of rapidly rising interest rates, runaway inflation and a strong US dollar we also face threats from geopolitical concerns (Brexit?) and a protracted trade war with our largest trade partners.

Based on what we have seen so far this year it would appear there is little threat that runaway inflation or excessively oppressive interest rate increases will cause a recession in the near term.  With 40% of corporate profits comi from international sales, the strengthening US Dollar will have a negative impact on corporate earnings and equity markets but it won't be enough to push the economy into recession on its own. The biggest wild card for the US economy is trade.

While the focus is currently on China it is important to remember that congress still needs to approve the agreements already made with Canada and Mexico, and they will need to approve any deals made with China. Following the mid-term elections the political will to approve modified trade agreements may not be there. There is a very real possibility that Trump will be forced to concede simply because he has lost the necessary leverage and political power to negotiate a viable agreement. Without a favorable resolution to trade tensions it will be hard for the economy to maintain the current rate of expansion through 2019. Should a favorable trade solution be be found the equity markets will certainly react positively. On the other hand, should a favorable trade solution be found the equity market will certainly react positively.

Predicting when the economy will stall or when the markets will peak is not possible, so it is important to be prepared.  Owning investments today that you would be willing to own into and through the next bear market (or recession) is a good start.   This doesn't mean you should avoid stock exposure or hide in a bond portfolio, it means you need to own a high quality diversified portfolio that is capable of participating in the markets upside while providing some protection on the downside. Investors with a low tolerance for volatility or who expect to need income from their portfolio should take advantage of rallies to build and maintain a larger portion of their portfolio in cash. Those planning to retire in the next 18 months should plan to have a year or more worth of cash available. Those with more tolerance for volatility or who are actively contributing to their accounts and have longer time horizons should focus on owning quality more than reducing overall exposure. Tactically adjusting exposure to areas of lower risk or increasing opportunity now can reduce overall losses when the markets fall while ensuring participation in a rising market.