CLIENT BRIEFING

QUARTERLY ECONOMIC COMMENTARY | Q4 | 2018

I hope you had a wonderful holiday season. We are now happily settled in our new office space and look forward to sharing new resources and ideas that can help you plan for life and prepare for a lifetime. The philosopher Niccolo Machiavelli once said, "Whosoever desires constant success must change his conduct with the times".

As most of you realize, investment markets ended 2018 on a sour note, with the S&P 500 dropping 10% in the last four weeks of the year. Many investors are struggling to remember the last time investment markets delivered a negative calendar year return, as U.S. stocks have been riding a bull market for almost a decade. Fortunately, the start to 2019 has been positive overall in the markets.

The prolonged bull market in domestic stocks, and the extremely low volatility of 2017 made 2018 feel like a splash of cold water. It is important to note, however, that 2018 was more "normal" than 2017. According to data from the St. Louis Federal Reserve, the biggest drop in the S&P 500 in 2017 amounted to just 2.8%, compared to the average intra-year pullback for the index of 13.6%. It was the smallest drawdown since 1995. However, investment markets, and the underlying economies, are expected to experience natural cycles over time. Trees don't grow to the sky and asset prices typically don't go to zero.

Most equity investments were negative in 2018. The worst performing asset classes were natural resources, emerging markets and developed international markets, all impacted by uncertainty over world trade and the strong U.S. dollar. While the S&P 500 was down about 4.4% for the year, it was still one of the best performing global indexes for the year. Therefore, most diversified portfolios under-performed this staple index.

High quality fixed income rallied as the market correction intensified in December. Although most bonds finished the year slightly down, they served as a valuable hedge against the equity selloff. The series of interest rate hikes by the Fed last year may partly explain why most bonds struggled to post positive total returns last year. Bond prices tend to move the opposite direction of yields.

Although investor sentiment turned cautious at the end of last year, sparked by the ongoing trade war with China, there were some telling signs that the economy was holding up better than thought. First, the employment report showed that US employers added 312,000 jobs in December, well above what economists expected. Second, Fed Chairman Jerome Powell raised short-term interest rates by another quarter percent, a sign that the underlying economy can withstand higher borrowing costs.

Over time, economies tend to grow, company profits tend to increase, and markets tend to rise. We expect global economies and markets to grow in the coming decades. As such, we are optimistic about long term expected returns after market drawdowns like the one we experienced last year. In order to help ensure successful investment outcomes, we urge you to stay focused on your specific goals in your plan.

Miller Wealth Advisors

Planning for life. Preparing for a lifetime.

Sources:
Bloomberg, December 31, 2018
Employment Situation Summary, Bureau of Labor Statistics, January 4, 2019

Past performance is not a guarantee of future results. It is also important to note that one cannot invest directly into an index. Diversification cannot assure a profit or guarantee against a loss of value.

Securities offered through Valmark Securities, Inc. Member FINRA, SIPC. Investment Advisory Services offered through Valmark Advisers, Inc., a SEC Registered Investment Advisor.130 Springside Dr., Akron, OH 44333. (800) 765-5201. *Miller Wealth Advisors, LLC is a separate entity from ValMark Securities, Inc. and Valmark Advisers, Inc.*