

Dear Investor,

Happy Holidays from the investment team at Union Asset Management. I can recall at least 20 times during my 30-year career wishing clients a happy holiday and talking about the Christmas rally that was going on. Unfortunately, this year we have witnessed a significant correction heading into the holiday season.

As we have mentioned in the previous three monthly updates, this was not unexpected. Many of the warning signs were flashing even with the strong economic backdrop—as we all know, the markets are forward-looking. With economic instability abroad, rising U.S. interest rates, trade conflict, and bear market pricing in the cyclical, the only global market holding up was the S&P 500.

With the recent 10% correction, our current decision tree points to two possible outcomes: either we have reached a valuation point that will draw in buyers (assuming slower growth next year rather than a recession), or else the significant negative momentum (coupled with a few external shocks, e.g. government shutdown, China trade war) will push us into a recession by early 2020. We are still gathering data points on these two scenarios and making moderate tweaks to our portfolios to hold up under both.

Our current expansion has been long by historic standards but also muted in terms of strength. We were able to extend it the last three years with aggressive fiscal policy. The Fed, on the other hand, has used that strength to raise rates and unwind their balance sheet. Looking into 2019 it seems very clear that the Fed needs to back off and we need another form of fiscal stimulus. While not fond of deficits, we think a large infrastructure play will make its way atop the priority list in Washington. That may do the trick in extending this expansion, but the question remains whether domestic and global markets will respond.

Please call or email me with any questions or comments.



Jesse T. Ellington III  
Chief Investment Officer  
Union Bank & Trust  
3900 Westerre Pkwy, Ste 201  
Richmond, VA 23233  
T 804.774.2087  
C 843.412.1420  
F 804.967.8821  
[jesse.ellington@bankatunion.com](mailto:jesse.ellington@bankatunion.com)