

Dear Investor,

With very few exceptions, global risk assets went into selloff mode during the fourth quarter. Lack of a U.S./China trade resolution, a slowing global macro backdrop, and only marginally accommodative signals out of the Fed have preoccupied investors' attention.

We expect the return of volatility to persist in the new year, although we still anticipate solid, albeit somewhat slower, economic and corporate profit growth to continue. U.S. equity valuations are mildly attractive at 15 times earnings, with moderate earnings growth of 4-6% for 2019 expected. Emerging and developed market valuations are significantly below historic averages but growth prospects are slowing. China, which has a strong track record of successful economic stimulation through debt-driven solutions, may be losing its magic touch. We need a China trade solution (even if it's short term) and a neutral Fed or stocks will finish down on the year. Domestically, the only thing we expect coming out of DC that will buffer GDP is a possible infrastructure spending bill; otherwise we expect general chaos, with much market risk arising out of the seesaw between the government shutdown, cries for presidential impeachment and other continuing fierce partisanship as the 2020 election starts to come into focus.

Historically, stocks can do well in this kind of market, especially given the fact that we are coming off a 16 percent correction. With the market cycle getting progressively long in the tooth, asset allocation becomes even more important. Last year there was nowhere to hide, with almost every asset class in negative territory. In this environment yield and growth become paramount, and that will be the focus of our portfolios. As much as ever, solid portfolio construction, broad diversification, and active management will be vital in 2019.

Please call or email me with any questions or comments.



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