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INVESTMENT MANAGERS

ECONOMIC UPDATE DECEMBER 2018

LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

Stocks provided modest returns in November after a rocky start to the quarter. Large stocks in the S&P 500 index climbed 2.04% in November bringing its year-to-date return to 5.11%. Small cap stocks in the Russell 2000 index were up 1.59% for the month and 0.98% year-to-date. International stocks in the MSCI EAFE index continue to struggle, down -0.13% for the month leaving the index down -9.39% so far in 2018. Emerging market stocks showed improvement in the month finishing up 4.12% but remain significantly lower year-to-date, down -12.24%.

Bond yields declined during the quarter providing support to bond prices which rose enough to give the Barclays US Aggregate Bond Index positive returns for the month of 0.6%. The index remains down year-to-date however at -1.79%. The decline in bond yields has spooked the market into concerns that the economy may be slowing more than some data shows.

Corporate earnings for the 3rd quarter finished as strong as they started. Total earnings for the S&P 500 were up 25% from the same period last year and revenues have grown more than 8%. The reports show that 78% of companies beat their estimates for earnings and 63% beat their estimates for revenue.

Earnings estimates for the current quarter (2018, Q4) have been coming down. At the beginning of the quarter, estimates were for 15.9% growth relative to the year ago period. Now the expectation is for 13.7% growth. Some of the softness is attributed to a weaker than expected housing market and auto industry. Weak oil prices have also been a factor.

The second reading on Third Quarter US GDP growth was unchanged from the initial reading of 3.5%. This follows a growth rate of 4.2% in the Second Quarter. Further slowing is now expected in the Fourth Quarter, but we are still on pace for 3% growth for the full year 2018. After 7 straight quarters of growth above 2%, slowing growth has sparked concerns that we may be nearing the end of our 10-year expansion.

Unemployment remains at an historic low level of just 3.7% and inflation remains in check rising just 2.5% over the past 12 months. Core inflation (not including food and energy) is up just 2.1% for the same period.

Despite recent market volatility, the Federal Reserve is expected to raise interest rates this month. In a recent statement, Fed Chairman Powell did indicate that we are very near neutral rates giving the market hope that the rate tightening cycle may end earlier than previously thought.

Recently, we saw the 3-year US Treasury bond trading at a yield slightly lower than the 2-year bond. This is a condition called yield curve inversion and raises concerns that we may be nearing a recession. Most economist agree that a recession is unlikely soon, but the market is on high alert for any sign of recession given the length of the current expansion.

Markets will likely continue to see increased volatility in the coming months. If you have special needs for cash coming up, please let us know so we can plan ahead. If you have any questions about your account, do not hesitate to contact us

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
CAMBRIDGEADVISORS.NET