

Open-End Net Fund Flows (\$)	11/18	10/18	YTD (Nov)
Equity	-25.56B	-18.98B	-171.02B
Taxable Bond	-21.11B	-27.19B	60.92B
Municipal Bond	-4.86B	-4.40B	6.17B
Hybrid	-12.28B	-11.24B	-62.47B
Taxable Money Market	72.60B	15.29B	83.48B

Key Interest Rates	12/31/18	6/29/18	12/29/17
Federal Funds Target Rate	2.50%	2.00%	1.50%
ICE LIBOR (3-Month)	2.81%	2.34%	1.69%
2-Year T-Note	2.49%	2.53%	1.89%
10-Year T-Note	2.69%	2.86%	2.41%
Bond Buyer 40	4.09%	3.98%	3.87%

Commodities/U.S. Dollar	12/18	6/18	12 Mo.
U.S. Dollar Index (DXY)	-1.13%	1.80%	4.40%
TR/CC CRB Commodity Index	-6.57%	-15.27%	-12.41%
Crude Oil (Barrel)	-10.84%	-38.76%	-24.84%
Natural Gas (per million BTUs)	-36.23%	0.68%	-0.34%
Gold Bullion (Ounce)	5.01%	2.14%	-2.14%

Total Return Performance

U.S. Stock Indices	12/18	YTD	12 Mo.
S&P 500	-9.03%	-4.39%	-4.39%
DJIA	-8.59%	-3.48%	-3.48%
NASDAQ 100	-8.83%	0.04%	0.04%
S&P MidCap 400	-11.32%	-11.10%	-11.10%
Russell 2000	-11.88%	-11.03%	-11.03%
Russell 3000	-9.31%	-5.25%	-5.25%

U.S. Styles/Market Caps	12/18	YTD	12 Mo.
S&P 500 Growth	-8.62%	-0.01%	-0.01%
S&P 500 Value	-9.49%	-8.97%	-8.97%
S&P MidCap 400 Growth	-11.28%	-10.34%	-10.34%
S&P MidCap 400 Value	-11.36%	-11.90%	-11.90%
Russell 2000 Growth	-11.69%	-9.34%	-9.34%
Russell 2000 Value	-12.10%	-12.85%	-12.85%

Foreign Stock Indices (USD)	12/18	YTD	12 Mo.
MSCI World NET (Ex-U.S.)	-5.17%	-14.09%	-14.09%
MSCI Emerging Markets NET	-2.66%	-14.58%	-14.58%
MSCI Europe NET	-4.62%	-14.86%	-14.86%
MSCI BRIC NET	-4.21%	-13.43%	-13.43%
MSCI EM Latin America NET	-0.82%	-6.57%	-6.57%
Nikkei 225	-7.71%	-8.63%	-8.63%

Barclays Bond Indices	12/18	YTD	12 Mo.
U.S. Treasury: Intermediate	1.50%	1.41%	1.41%
GNMA 30 Year	1.85%	1.03%	1.03%
Municipal Bond (22+)	1.37%	0.34%	0.34%
U.S. Aggregate	1.84%	0.01%	0.01%
Intermediate Corporate	1.05%	-0.23%	-0.23%
U.S. Corporate High Yield	-2.14%	-2.08%	-2.08%
Global Aggregate	2.02%	-1.20%	-1.20%
EM Hard Currency Aggregate	1.32%	-3.02%	-3.02%

Sources: Bloomberg, Barclays, Investment Company Institute

Past performance is no guarantee of future results. Historical performance figures for the indices are for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and an investor cannot invest directly in an index.

Climate

December's nonfarm payroll release was a pleasant surprise considering the 312,000 new jobs created topped the consensus estimate of 184,000 from economists surveyed by Bloomberg. It was also significantly higher than the 220,000 per month average for 2018 and the 169,000 average since the economic recovery began in July 2009, according to data from the Bureau of Labor Statistics. This news is timely because the narrative that has been weaving its way through the markets since the start of Q4'18 is that investors should begin bracing for slower economic growth due to "premature" rate hikes from the Federal Reserve and the unresolved trade/tariff conflict between the U.S. and China. In response to this narrative, investor sentiment shifted from risk-on to risk-off. The major U.S. stock indices either plunged into bear market territory (price decline of 20% or more from recent peak) or came close in Q4'18. The selling pressure even extended to speculative-grade debt, such as leveraged-loans (senior loans) and high yield corporate bonds. We do not subscribe to the concerns over economic growth. Brian Wesbury, Chief Economist at First Trust Advisors L.P., is forecasting 3.0% U.S. economic growth in 2019. Wesbury believes that the benefits to growth from the cut in the corporate tax rate and less regulation in the U.S. are going to take years to play out.

Stock Market

The S&P 500 Index ("index") closed at 2,506.85 on 12/31/18, 14.46% below its all-time high of 2,930.75 set on 9/20/18, according to Bloomberg. The index posted a total return of -9.03% in December. All 11 major sectors that comprise the index were down on a total return basis. The top-performer was Utilities, down 4.02%, while the worst showing came from Energy, down 12.67%. In 2018, the index posted a total return of -4.39%. Three of the 11 sectors were up on a total return basis. The top-performer was Health Care, up 6.47%, while the worst showing came from Energy, down 18.10%. Domestic equities, while down in 2018, did manage to outperform most of the major foreign stock indices (see Total Return Performance tables). Volatility spiked in 2018. The Chicago Board Options Exchange Volatility Index (VIX) uses S&P 500 Index options activity to gauge investors' expectations of volatility. The index more than doubled from a reading of 11.04 on 12/29/17 to 25.42 on 12/31/18, according to Bloomberg. Its average reading for the 20-year period ended 12/31/18 was 19.94. We believe that concerns over the extent to which interest rates could trend higher in 2019 and the potential for trade tariffs escalating to an all-out trade war were largely behind the spike in volatility. For those investors who fear that higher interest rates could dampen the prospects for stocks in 2019, Federal Reserve ("Fed") Chairman Jay Powell announced on 1/4/19 that the Fed will be adopting a "patient" approach to tightening monetary policy. With respect to trade, the Trump Administration is sending trade representatives to China on 1/7/19 to set up future trade policy talks. We believe stock prices would move higher on a U.S.-China trade deal. Investors still have plenty to be encouraged about, in our opinion. S&P Dow Jones Indices announced that total dividend distributions for U.S. common stocks increased by a record net \$58.4 billion in 2018, up from a gain of \$37.1 billion in 2017. Dividend growth has historically been a barometer of strength for Corporate America.

Bond Market

The yield on the benchmark 10-year Treasury note (T-note) closed trading on 12/31/18 at 2.69%, down 30 basis points (bps) from its 2.99% close on 11/30/18, according to Bloomberg. The yield stood 18 bps above its 2.51% average for the 10-year period ended 12/31/18. Investment-grade bonds were one of the beneficiaries of the steep sell-off in the stock market in December. As previously noted, investors have shunned risk in recent weeks. It is reflected in December's bond index returns (see Barclays Bond Indices table). This could end up being just a short-term read on the market by investors, in our opinion. Keep in mind, Moody's reported that its global speculative-grade default rate stood at 2.3% in November 2018, its lowest level since May 2015. It sees the rate inching up slightly to 2.4% in November 2019. That forecast does not reflect heightened credit concerns.

Takeaway

While tough to endure, sharp sell-offs in the stock market can bring about opportunity, especially if the fundamentals are still intact, which we believe is the case. The S&P 500 Index no longer looks expensive on a price-to-earnings (P/E) ratio basis. Bloomberg's consensus P/E estimate for year-end 2019 was 14.81 on 1/4/19, well-below its 50-year average P/E of 16.76.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	2930.75	9/20/2018	676.53	3/9/2009	2506.85	-14.46%	-4.39%	2.15%
S&P 500 Growth	1785.51	10/1/2018	363.99	3/9/2009	1512.02	-15.32%	-0.01%	1.63%
S&P 500 Value	1195.51	1/26/2018	307.16	3/9/2009	999.70	-16.38%	-8.97%	2.72%
S&P MidCap 400	2050.23	8/29/2018	404.62	3/9/2009	1663.04	-18.89%	-11.10%	1.92%
S&P MidCap 400 Growth	962.51	9/14/2018	177.31	3/9/2009	775.90	-19.39%	-10.34%	1.54%
S&P MidCap 400 Value	680.56	8/29/2018	144.98	3/9/2009	553.36	-18.69%	-11.90%	2.33%
S&P 100	1302.80	10/3/2018	322.13	3/9/2009	1113.87	-14.50%	-3.87%	2.25%
DJIA	26828.39	10/3/2018	6547.05	3/9/2009	23327.46	-13.05%	-3.48%	2.43%
NASDAQ 100	7660.18	8/29/2018	1043.87	3/9/2009	6329.96	-17.37%	0.04%	1.19%
Russell 2000	1740.75	8/31/2018	343.26	3/9/2009	1348.56	-22.53%	-11.03%	1.67%
Russell 2000 Growth	1117.18	8/31/2018	190.73	3/9/2009	852.68	-23.68%	-9.34%	0.83%
Russell 2000 Value	2049.42	8/22/2018	469.32	3/9/2009	1608.84	-21.50%	-12.85%	2.55%
Russell 3000	1737.97	9/20/2018	389.61	3/9/2009	1472.14	-15.30%	-5.25%	2.15%
MSCI World Net (ex U.S.) (USD)	6487.64	1/25/2018	2131.84	3/9/2009	5245.23	-19.15%	-14.09%	3.69%
MSCI Emerging Markets Net (USD)	573.23	1/26/2018	172.98	3/2/2009	445.44	-22.29%	-14.58%	2.99%
Ibovespa/Brazil (USD)	43619.40	4/8/2011	9077.09	1/21/2016	22683.51	-48.00%	-1.80%	3.56%
RTS/Russia (USD)	2123.56	4/8/2011	498.20	1/23/2009	1066.13	-49.80%	-2.11%	6.02%
S&P BSE 500/India (USD)	245.12	1/24/2018	57.52	3/9/2009	208.64	-14.88%	-10.05%	1.32%
Shanghai Composite/China (USD)	832.07	6/12/2015	266.77	12/31/2008	362.58	-56.42%	-26.91%	2.71%
KOSPI/South Korea (USD)	2.42	1/29/2018	0.65	3/2/2009	1.83	-24.49%	-20.07%	1.98%
Hang Seng (USD)	4241.01	1/26/2018	1462.65	3/9/2009	3299.93	-22.19%	-10.78%	3.88%
MSCI Euro (USD)	1544.35	1/26/2018	682.47	3/9/2009	1169.05	-24.30%	-15.59%	3.86%
S&P 500 Consumer Discretionary	939.41	9/27/2018	125.72	3/9/2009	781.50	-16.81%	0.82%	1.45%
S&P 500 Consumer Staples	605.24	1/26/2018	199.80	3/9/2009	521.88	-13.77%	-8.39%	3.22%
S&P 500 Energy	737.09	6/23/2014	304.81	3/5/2009	424.07	-42.47%	-18.10%	3.68%
S&P 500 Utilities	287.82	11/14/2017	113.81	3/9/2009	268.61	-6.68%	4.11%	3.48%
S&P 500 Financials	501.29	1/26/2018	81.74	3/6/2009	395.90	-21.02%	-13.04%	2.21%
S&P 500 Banks	372.05	2/1/2018	49.02	3/5/2009	278.50	-25.14%	-16.44%	2.83%
FTSE NAREIT All Equity REITs	725.61	8/1/2016	163.57	3/6/2009	628.75	-13.35%	-4.06%	4.40%
S&P 500 Health Care	1107.28	10/1/2018	252.84	3/5/2009	1001.18	-9.58%	6.47%	1.74%
S&P 500 Pharmaceuticals	723.95	11/30/2018	214.50	3/3/2009	666.80	-7.89%	8.09%	2.59%
NYSE Arca Biotechnology	5400.34	9/27/2018	541.77	3/9/2009	4220.85	-21.84%	0.27%	0.34%
S&P 500 Information Technology	1332.87	10/3/2018	199.62	3/9/2009	1088.31	-18.35%	-0.29%	1.70%
Philadelphia Semiconductor	1445.90	3/12/2018	188.97	3/2/2009	1155.17	-20.11%	-6.05%	2.08%
S&P 500 Telecom Services	183.85	7/1/2016	88.10	3/9/2009	138.78	-24.52%	-12.53%	1.63%
S&P 500 Industrials	678.74	1/26/2018	132.83	3/9/2009	542.16	-20.12%	-13.32%	2.30%
S&P 500 Materials	401.59	1/26/2018	108.33	3/2/2009	316.62	-21.16%	-14.70%	2.32%
Philadelphia Gold & Silver	228.95	4/8/2011	38.84	1/19/2016	70.66	-69.14%	-16.41%	0.84%
TR/CC CRB Commodity	370.56	4/29/2011	155.01	2/11/2016	169.80	-54.18%	-12.41%	N/A
ICE BofAML Perpetual Preferred	259.60	8/30/2018	51.79	3/9/2009	245.24	-5.53%	-4.44%	6.26%
ICE BofAML U.S. High Yield Constrained	429.18	10/2/2018	141.21	3/9/2009	408.20	-4.89%	-2.25%	8.01%

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