Beacon Trust
INNOVATING WEALTH STRATEGY

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Thoughts on Recent Stock Market Volatility and Losses

In light of recent stock market volatility and several uncertain headlines lately both on a political and economic level, we wanted to communicate our thoughts on recent market activity. First and foremost, we would like to reiterate that the economy continues to be robust, unemployment readings remain very low and inflation is tame. Additionally, the holiday shopping season was the strongest in six years due to an upbeat consumer. All of these are positive indicators for the overall economy.

With that positive economic backdrop, why are stocks, on pace for their biggest December losses since The Great Depression, falling? There is no single factor that explains the decline, but rather a varied mix. Namely, the escalation of trade tensions over the past few weeks, concerns that the Fed is raising rates too fast, the ongoing Mueller investigation, the government shutdown and sudden changes in administration personnel have all served to unnerve the equity markets. In short, fear, not fundamentals, is primarily driving the recent negative market momentum. Or, put another way, there may be a disconnect at the moment between the economy and the markets.

A change in the economic landscape would cause us to alter our viewpoint and we are constantly assessing whether a change is warranted. In the short-term, we do not see the need to change our portfolio allocation due to the aforementioned economic strength and robust corporate earnings. Additionally, liquidity and capital ratios are at all-time highs and the credit markets are not showing signs of stress – both are important barometers of bank and financial market stability.

At Beacon Trust, we nearly always recommend diversified portfolios for our clients. For example, fixed income investments often increase during turbulent periods for stocks, giving investors the courage to navigate the inevitable down periods for stocks. One silver lining in the sharp drop in stock prices is that valuations become more attractive. As we wind up the tail end of this holiday season, consumers can look for continued sales on merchandise. Similarly, value investors, such as Warren Buffett, often view market declines as a rare opportunity to purchase stocks in good companies at bargain prices. Some risk tolerant clients at Beacon may think similarly and seek to increase allocations to excessively beaten down investments.

In our view, if stocks do succumb to bear market levels, the two closest historical comparisons may be the Cuban Missile Crisis of 1962 and Crash of 1987. In both instances, bear market levels were reached while the economy managed to avoid a recession. Also, in both instances, the bear market lasted 6 months or less. With the tax loss selling season nearly behind us and the prospect of earnings growth for 2019, we may be approaching some light at the end of the tunnel. We are closely watching two events that will occur during the first quarter of 2019. Specifically, the Federal Reserve Open Market Committee meeting on January 29-30 and the U.S.-China tariff deadline on March 2nd. If both events conclude in a market friendly manner the bull market, which began in March 2009, may continue. However, if one or more of these events unfolds in a negative manner, we expect to see continued volatility.

Please do not hesitate to reach out to your representative at Beacon Trust with any questions as we are always available to answer them.

Beacon Trust Investment Strategy Team

Beacon Trust 163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | BeaconTrust.com