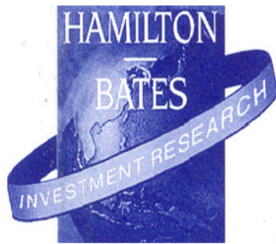


Hamilton-Bates
Market Update

December 19, 2018

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

Still Waiting for Santa

There are just 7 trading days left in 2018, which currently is shaping up as a brutal year for investments with nearly all asset classes negative on year, with small-caps and energy stocks taking the biggest hit. Even the conservative real estate market suffered as housing had its worst year since the 2008 Great Recession.

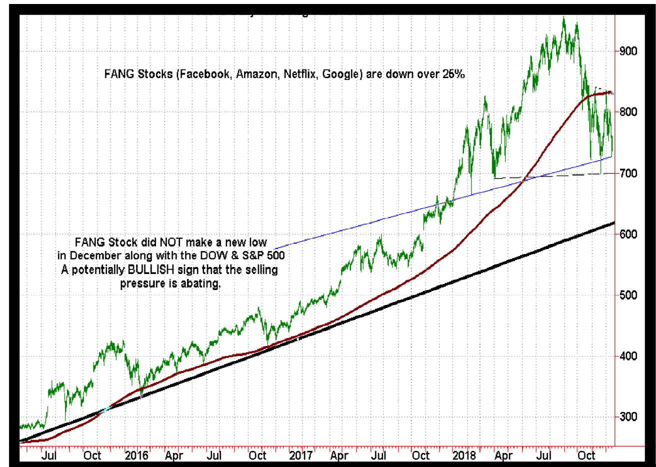
When we look at the past few months, its clear the 'trigger' for the decline was the Fed, the market peaked within a day of the Fed Chairs now famous "we are nowhere close to neutral and the economy looks great" comment that spooked a market already starting to have concerns about slowing in key sectors like housing. Those comments caused concern that the Fed was on track to once again 'create a recession' by hiking too much too soon.

Seasonal and Historical trends strongly favor a rally in stocks, and the market is now deeply oversold given the 10%+ decline from the peak. With the Fed set to make an announcement on rates today, we could see some lift as they then step aside for awhile. They have also seemed to see the error of that inauspicous comment and are likely to ease up on the rate hikes for awhile.

Economy, Earnings, and Interest Rates

While there has been a great deal of concern over the Fed and what their rate hikes could be doing to the economy, so far those concerns haven't been reflected in the economic data (yet). Despite all the hand-wringing in the market, the reports we seen so far all suggest the economy is back in the 'Goldilocks zone', not too hot, not too cold. It's good enough to facilitate earnings growth, but not so strong that the Fed has to be hawkish with its rate-hike plans.
First and foremost, know that inflation is tempered. 'The' annualized inflation rate now stands at 2.2%, essentially in line with the Fed's target. This leaves the FOMC plenty of room to maneuver, though most investors seem to think the economy may be beyond help.

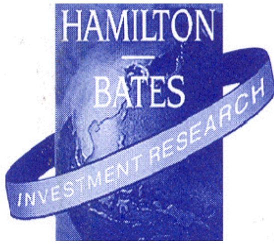
Consumers are also still spending in stores. Though spending slowed dramatically from October's 1.0% growth, the 0.2% rise was right on target. Year-over-year we're still seeing spending growth of more than 4.0%. Finally, and arguably most important, capacity utilization and industrial productivity were both up last month, pointing to more industrial activity as well as profit growth.



Could FANG Be Turning a Corner?

FANG stocks led the market up earlier in the year, and they also led the market down during the latest decline. After taking an average beating of 25%, the FANG stocks are finally showing some positive indications. While december has been a rough one for the market averages, the FANG stocks are actually doing a bit better, and have NOT made a new low with the market this month. That is a bullish sign that perhaps the selling in these key nams is over. That could mean the end of the selling in the rest of the market is near as well.

Disclosures:
This report has been produced and compiled by Hamilton-Bates on a best efforts basis, and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Hamilton-Bates and readers are expected to make their own investment decisions after consulting with their personal financial advisor and without reliance on this report.



Hamilton-Bates
Market Update

November 20, 2018

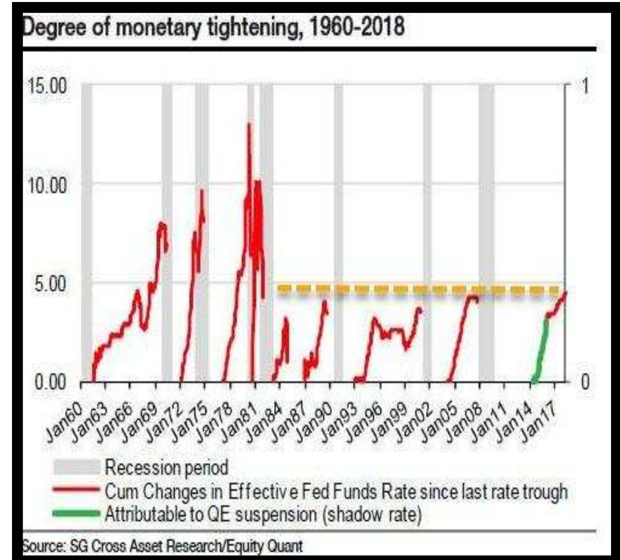
P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

We've mentioned it before but it bears repeating now... this data coincides with the long-term market trend and corporate earnings. If it's still rising, the bull market is still alive and the economy is still growing. It won't stave off short-term pullbacks, but it's a bullish bigger-picture clue.

The FED Has Already Tightened Alot!
The chart at the top of the next column looks tricky but its pretty strait-forward. It shows the Fed rate hikes during each recovery since 1960 (there were seven of these periods, each separated by a recession shaded in gray). The most recent hike cycle is at the right. What we can see from this is that in terms of time from the recessions' end, the Fed waited a REALLY long time to begin to hike rates. That was likely a mistake. Much better for the Fed would have been to tighten say in 2013.

Second, we can see that relative to past cycles, the degree of monetary tightening is already at levels where prior rate hike cycles ENDED. In the past few cases a recession was not far around the corner. Given what we have seen in the financial markets and the forward looking concerns many companies have—a pause here seems to be the sensible course of action. If the Fed hikes after this move it will likely prove to be a mistake. A pause after this move could be a boost for the economy and the financial markets. Much will be made over their comments after the FMOC meeting, where investors want to hear that their 2019 moves will be data dependent rather than on some pre-ordained path.

Market and Investment Outlook
The stock market and major averages are down a bit more than 10% from their peaks, with many individual stocks and sectors down multiples of that. Our managed accounts are down roughly half of what the averages are or less, due to holdings in bonds and a



larger than usual cash position. How a portfolio fared in the latter part of 2018 is largely a function of how large a bond position it had. The first half of the year was ok for stocks and bad for bonds, with the second half the complete opposite and slightly more pronounced.

We still believe the market should and will rally in the near future, and we'd love to put cash to work- but we need to see signs of stability that have so far remained elusive. Perhaps the Fed does and says the right things today to restore investor confidence. If so, that could set us up for a nice rally into the New Year. Our long-term Recession signals haven't triggered despite concerns, so there is still hope for Santa to make an appearance over the year's final weeks.

Disclosures:
This report has been produced and compiled by Hamilton-Bates on a best efforts basis, and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Hamilton-Bates and readers are expected to make their own investment decisions after consulting with their personal financial advisor and without reliance on this report.