

## U.S. Equities December 2018

### KEY HIGHLIGHTS

- The [S&P 500®](#) was down 9.18% in December, bringing its return for 2018 to -6.24%.
- The [Dow Jones Industrial Average®](#) lost 8.66% for the month and was down 5.63% for the year.
- The [S&P MidCap 400®](#) was down 11.48% for the month and down 12.50% for 2018.
- The [S&P SmallCap 600®](#) returned -12.26% in December and fell 9.75% for the year.

Exhibit 1: Index Returns

INDEX	1-MONTH (%)	3-MONTH (%)	1-YEAR (%)	3-YEAR (%)
S&P 500	-9.18	-13.97	-6.24	22.65
Dow Jones Industrial Average	-8.66	-11.83	-5.63	33.87
S&P MidCap 400	-11.48	-17.65	-12.50	18.91
S&P SmallCap 600	-12.26	-20.43	-9.75	25.78

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes. Returns shown are price returns.

### MARKET SNAPSHOT

It was a December to remember (or maybe better to forget), as the S&P 500 posted its worst December performance (-9.18%) since 1931 (-14.53%) and flirted with the bear (it would have entered the classification if intraday levels were used; we use closing). It ended the month halfway between a correction (-10%) and the bear (-20%), off 13.97% from its closing high and off 6.24% for the year (after being up 9.62% YTD in September).

The S&P 500 returned strongly to the red in December (historically the month is up 73.3% of the time), posting its worst month since February 2009 (-10.99%), after November's battle that ended with a profit (up 1.94%) and October's decline (-6.94%). The issues for the past three months (-13.97%) have been the global economic slowdown (some countries have shown a contraction), trade issues between the U.S. and China (with Chinese markets in a deep decline, but reports of new January talks rumored), the increased cost of materials and labor (as more companies warned) even as oil prices have declined (which gives some relief to costs and consumers, with some seeping into core inflation), and geopolitical issues (headed by immigration and nationalistic policies). The combined uncertainty, and the inability of investors or companies to control the issues, has caused greater anxiety in the markets, along with a decline in confidence. For the year, the S&P 500 was solidly in the red; the index declined

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*S&P Dow Jones Indices' Market Attributes® series provides market commentary highlighting developments across various asset classes.*

14.46% from its Sept. 20, 2018, high (2,930.75), when it was up 9.62% YTD (up 11.16% with dividends), and it ended the year down 6.24% (-4.38% with dividends), the worst year since 2008, when it fell 38.49% (2015 was mixed, down 0.73% but up 1.38% with dividends, as was 2011, down 0.0025% and up 2.11% with dividends). The mood on the Street at year-end 2018 was also mixed, but it was more positive than negative, as economists and strategists pointed to the underlying strengths of the economy, with technicians pointing to volatility, support levels, and slowing growth. The bottom line appears to be more volatility for the opening days of 2019 (the first day of trading is a toss-up, with the year moving in the same direction of the market exactly half the time; January reads true 71.1% of the time). Earnings, which will start with the big banks on Jan. 13, 2019 (Citigroup; Jan. 14, 2019, brings JPMorgan Chase and Wells Fargo), typically would grab the market's attention and trades. However, the sideshows of a government shutdown (with a lack of economic reports released due to the shutdown) and Washington's tendency over the past year to grab the attention (and trades), along with the new majority in the House of Representatives, speak to continued volatility and uncertainty, which would seem to be the best bet on the Street (and then there are the international trade and tariff issues, interest rates, spending, slower growth, etc.).

The S&P 500 closed at 2,506.85, down 9.18% (-9.03% with dividends) from last month's 2,760.17 close, when it declined 1.74% (2.04%). For the three-month period, the index was down 13.97% (-13.52% with dividends); for 2018, the index was down 6.24% (-4.38% with dividends), and the two-year return was up 11.97% (up 16.49% with dividends). The index was up 17.17% (22.29%) from the Nov. 8, 2016, election's 2,139.56 close (7.67% and 9.84% annualized, respectively). The index entered correction mode and continued to decline, ending the month off 14.46% from its Sept. 20, 2018, high of 2,930.75, as it approached the -20% bear level. The Dow<sup>®</sup> closed at 23,327.46, down 8.66% (-8.59% with dividends) from last month's 25,538.46, when it was up 1.68% (2.11%), with the three-month return down 11.83% (-11.31%), and the year down 5.63% (-3.48% with dividends).

With Q3 2018 EPS reported and setting new records for Operating, As Reported (GAAP), and Sales, the market is starting to focus on Q4 2018, which is expected to tick down 2.3%, but it is predicted to post a 19.4% year-over-year gain over the pre-tax reduction Q4 2017. For the year, 2018 is expected to post a 26.1% gain over 2017, as 2019 slows down with an expected 9.4% gain (setting a new record). Q3 2018 S&P 500 buybacks, as expected, set their third consecutive record, passing the USD 200 billion mark for the first time, to USD 203.8 billion, as the first three quarters of 2018 were within 1% of the annual record set in 2007. More issues are doing significant share count reduction and therefore increasing their EPS. Q4 2018 S&P 500 dividends set a record at USD 14.19 per share (USD 119.8 billion in aggregate), as they also set an annual record with USD 53.76 per share (USD 456.3 billion in aggregate). Analysts pulled back their one-year, bottom-up target prices, but not as much as the market pulled back on the prices, leaving high expectations. The S&P 500 target price was 3,153 (25.8% from here; 3,179 last month), and the target price for The Dow was 28,865 (23.7% from here; 29,020 last month).

Budget Secretary Mick Mulvaney will be Trump's acting chief of staff (replacing John Kelly, who left at year-end 2018, who replaced Reince Priebus in July 2017). After Defense Secretary Jim Mattis said he would resign at the end of February 2019, citing differences with Trump, Trump moved Mattis' departure date to year-end 2018, naming Deputy Defense Secretary Patrick Shanahan (who was previously a Boeing employee) to temporarily replace him. A Texas federal judge ruled the Affordable Care Act (Obamacare) unconstitutional; it will be reviewed by higher courts. The U.S. government partially shut down (at midnight on Dec. 21, 2018) over the funding issue for a U.S.-Mexico wall. The

shutdown affected approximately 25% of the federal government (the rest had previously been funded), as some agencies considered critical remained open. The impact was minor over the holiday week, but will grow as it continues into January. Of note, the U.S. Commerce Department said it would not issue any economic data during the shutdown (GDP, inflation), although the Bureau of Labor Statistics will (but could be delayed).

The ECB, as scheduled (and expected), announced the end of its crisis-era QE program at the end of this year, as bond purchases declined to zero from EUR 15 billion (USD 17 billion). The bank said it plans to reinvest the proceeds from the maturing bonds for an extended period of time, while leaving its interest rates unchanged. The U.S. FOMC raised interest rates 0.25% (as expected) for the fourth time in 2018. In its statement and forecast, the Federal Reserve described a milder set of interest rate increases over the next few years, as the majority (11 of 17) felt the FOMC would need to increase rates no more than twice in 2019 (compared with the expectation of seven increases at its September meeting). In his conference call, Fed Chair Jerome Powell described a “robust economic background,” adding that the Fed saw “some softening, relative to what we were expecting a few months ago,” and he commented that it was satisfied with its current program to shrink its balance sheet and had no plans to change it. The market reacted poorly, as the expectation was for one interest rate increase in 2019; stocks went from being up 1.5% before the announcement to closing down 1.5%. Sweden’s central bank (Riksbank) unexpectedly raised its interest rate (for the first time since 2011) by 0.25%, though it remained negative at -0.25% (previously -0.50%) and in its forecast the bank indicated two additional increases of 0.25% in 2019. Mexico’s central bank raised its interest rate by 0.25% to 8.25% (as expected)—the country’s highest interest rate since 2008.

With Q3 2018 earnings reporting finished, 382 of the 497 reported issues beat their operating estimates, with 75 missing and 40 meeting expectations. On the sales front, 302 of the 494 issues beat sales expectations, setting a new record and posting a 2.0% gain over Q2 2018 and up 10.7% over Q3 2017. To date, 17 issues have reported for Q4 2018, as 13 beat, 2 missed, and 2 met, with 8 of the 17 beating on sales. At this point, the Q4 2018 estimate is expected to decline 2.3% (up 19.4% year-over-year), as full-year 2018 operating earnings are expected to post a 26.1% gain over 2017 (with taxes getting most of the credit), while 2019 estimates are pointing to a 9.4% gain over 2018. In dividends, Q4 2018 set a record at USD 119.8 billion and an annual record of USD 456.3 billion (versus USD 419.8 billion for 2017), supported by savings from lower taxes, but not as favored as buybacks. Q3 2018 buybacks set a record at USD 203.8 billion (USD 446 billion for the 12-month period), as companies spent some of their tax savings on them.

OPEC met in Vienna with an agreement to cut oil production by 1.2 million barrels a day, with OPEC cutting 800,000 and the Russian Federation cutting 400,000 (though discussions continued on the details). Oil broke well under USD 43, trading as low as USD 42.36 and closing at USD 45.81, off 40.0% from its Oct. 3, 2018, four-year high of USD 76.41.

In M&A, tobacco issue Altria (MO) said it would invest USD 1.8 billion in cannabis issue Cronos Group (CRON)—a 45% share. Altria added it would exit some e-cigarette brands and consider an investment in e-cigarette company Juul. Healthcare product issue Pfizer (PFE) and UK issue GlaxoSmithKline (GSK) said they would combine their consumer health units (over-the-counter products). In IPOs, reports said Uber was planning its IPO for early 2019 (last valued at USD 76 billion, but potentially USD 120 billion depending on market conditions—not the best right now), as it wants to go public before its rival Lyft. Social media issue Pinterest added its name to expected early 2019 IPOs; Pinterest’s last

financing valued the company at USD 12 billion. Of note, the EU Court of Justice's advocate general issued a non-binding opinion that the UK could cancel its Brexit without permission from the EU, as UK Prime Minister Theresa May "delayed" the parliamentary Brexit deal as it became evident that it would not pass. A no-confidence vote was called, which May passed (200 versus 117) and it cannot be called again for one-year. Brexit is March 29, 2019, and without an agreement (rulebook), economic operations and procedures could significantly deteriorate.

The 10-year U.S. Treasury Bond closed the month at 2.69%, down from last month's 2.99% (2.41% for year-end 2017 and 2.45% for year-end 2016). The pound closed up at 1.2754 from 1.2743 (1.3498 for year-end 2017 and 1.2345 for year-end 2016), the euro was up to 1.1461 from last month's 1.1318 (1.2000, 1.0520), the yen closed at 109.58 from 113.55 (112.68, 117.00), and the yuan closed at 6.8785 from last month's 6.9065 (6.5030, 6.9448). Oil decreased to close at USD 45.81 from last month's USD 50.72 (USD 60.09 for year-end 2017 and USD 53.89 for year-end 2016). U.S. gasoline pump prices (EIA, all grades) decreased, closing the month at USD 2.358, from last month's USD 2.460 per gallon (USD 2.589, USD 2.364). Gold was up, closing at USD 1,284.70 from last month's USD 1,227.40 (USD 1,305.00 for year-end 2017 and USD 1,152.00 for year-end 2016). VIX closed at 25.42, trading as high as 36.20 and as low as 15.94, up from 21.23 last month (11.05 at year-end 2017 and 14.04 at year-end 2016).

## INDEX REVIEW

### S&P 500

The S&P 500 returned strongly to the red this month (-9.18%), posting its worst December since 1931 (-14.53%). The issues for the past three months (-13.97%) have been the global economic slowdown, trade issues between the U.S. and China, the increased cost of materials and labor, and geopolitical issues. The combined uncertainty (and lack of control) has increased anxiety and volatility in the market, as well as eroded confidence. For 2018, the index posted a 6.24% decline (-4.38% with dividends), the worst year since 2008, when it fell 38.49%, after being up 9.62% on Sept. 20, 2018. On the positive side, the year did end on an up week and managed to avoid the bear (although it traded there intraday). The mood on the Street remained more positive than negative; the economy was seen as strong, but growth was slower than expected, and that slow growth was expected to continue. At this point, more volatility for the opening days of 2019 is expected (the first day of trading is a toss-up, with the year moving in the same direction of the market exactly half the time; January reads true 71.1% of the time). The Street has started to look at earnings and will focus on them more after the New Year holiday, as two-thirds of the issues are expected to report in January, with their numbers and guidance expected to dominate the market.

Volatility increased in December, as 10 of 19 days moved at least 1% (2 up and 8 down; 2018 had 32 up and 32 down of its 251 trading days), compared with November's 8 of 21 (5 up and 3 down) and October's 10 of the 23 days (5 up and 5 down) and zero 1% moves over the prior three months. Intraday volatility (daily high/low) increased to 2.56% from November's 1.37% and was 1.21% for 2018, up from 0.51% for 2017 (which was the lowest level since 1962, when my data starts; the average is 1.43%). The monthly high/low spread jumped to 19.33%, the highest level since the 20.27 posted in October 2011, and it was up from 7.00% last month and 12.92% in October. Trading increased 4% over November, which decreased 12% over an active October (which was up 46%), and it was up 28% year-over-year and up 13% over the one-year average monthly trading. Sector variance decreased, as

all 11 sectors declined (9 were up last month and 4 were up in October). The spread between the best (Utilities, -2.28%) and worst (Energy, -9.83%) sectors for the month was 7.55%, down from last month's 9.09%. For 2018, nine sectors were negative; Health Care did the best, up 4.69%, and Energy did the worst, off 20.50%, resulting in a 25.19% spread (last month it was a 21.80% spread).

For the month, all 11 sectors declined, as selling easily outpaced buying, down from last month's eight gainers and two in October. Utilities did the best, falling 4.31%, as safety and yield helped support it; for the year, the sector was one of two groups that closed up, as it posted a 0.46% gain. Health Care, which fell 8.72% for the month, was the other sector, ending the year up 4.69%. Energy did the worst, off 12.82%, as oil continued down and the sector ended the year at -20.50%. Financials fell 11.45% and was down 14.67% for the year, though the sector was up 2.66% over the past two years. Information Technology declined 8.54%, as the sector fell into the red for the year, off 1.62% and up 36.11% from the U.S. November 2016 election. Consumer stocks fell, as Consumer Discretionary declined 8.45% and fell into the red for 2018, down 0.49%, and Consumer Staples lost 9.46% and was down 11.15% for the year.

Breadth was dead, as only 14 issues gained for the month (an average of 2.85% each), compared with 358 last month and 103 gainers in October (and we thought that was bad); no issues gained at least 10% for the month, compared with last month's 50 and 4 in October. On the down side, 491 issues fell (an average loss of 10.65%), up from 145 in November and 400 in October, as 237 issues (47% of the index) declined at least 10% (average -15.47%), compared with last month's 35 and 170 decliners in October. For the year, breadth turned strongly negative, as 174 issues were up (an average of 15.19% each), compared with 252 being up at the end of November, with 94 of them up at least 10% (an average gain of 24.81%) and 33 up at least 25% (an average 40.37% gain). On the down side, 331 issues fell (an average loss of 20.91%), up from 149 down YTD last month; 245 issues declined at least 10% for the year (average loss of 26.54%), as 112 of them were down at least 25% (average -36.72%) and 9 fell by over half.

## **The Dow**

The Dow increased its volatility in December, as 12 of the 19 days moved at least 1% (4 up and 8 down), and 5 moved at least 500 points (1 up and 4 down); all 30 issues in the index declined. However, The Dow did the best of any of the core indices for the month and the year, as it declined 8.66% in December and was down 5.63% YTD. The outperformance for the year was notable against the double-digit S&P MidCap 400 decline of 12.50% and the S&P SmallCap 600's 9.75% fall, even as the point declines set records. Volatility for the year was high, with 20 (6 up and 14 down) of the 42 (10 up and 32 down) 500-point days in the history of the index occurring in 2018. The expectation is for the index to remain volatile, as the market copes with the uncertainties of growth, trade, interest rates, and public policies.

For December, The Dow closed at 23,327.45, off 8.66% for the month (-8.59% with dividends), from last month's 25,538.46, when it was up 1.68% (2.11% with dividends), and 25,115.75 the month before (-5.07% and -4.98%), as it was the best of the worst. For the three-month period, the good news (again this month) is that The Dow led the pack, beating the large, mid, and small caps. The bad news was that it lost 11.83% over the three-month period (small caps were off 20.43%), and that was a winning hand. For the year, The Dow was down 5.63% (-3.48% with dividends), again the best of any of the headline indices.

For the month, there was no breadth, as all 30 issues declined, with an average decline of 8.38%, compared with 24 gainers last month and 9 the month before that. Nine issues declined at least 10% (average -13.35%), compared with two last month. For the three-month period, breadth declined, as five issues gained (average gain of 6.42%), down from 16 for last month, as one issue was up at least 10% (10.44%), compared with seven last month. The 25 decliners averaged a loss of 12.60%, with 16 of them down at least 10% (-16.85%) and two off at least 25% (-27.81%). For the year, 14 issues were up (an average of 11.51% each) and 16 were down (-14.47%). Seven were up at least 10% (10.35%), as nine fell at least 10% (-20.39%), with one up at least 25% and two down at least 25%. The wide spread of returns among the largest issues in the world portrays a changing economy (and premiums).

Issues continued to vary widely, but declined, partially because there were no winners, and the spread between the best and worst issue was 18.0%, down considerably from last month's 30.23%, which was down from the prior month's 33.09%. Athletic shoe and accessories issue NIKE (NKE) did the best, declining only 1.3% for December, as it posted an 18.53% 2018 gain. Drug issues did better than most, as ethical drug issue Merck (MRK) lost 3.69% (again, above par) to end the year up 35.79%, with consumer health care issue Pfizer down 5.58% for the month, but up 20.51% for 2018. Drug store Walgreens Boots Alliance (WBA) did the worst, off 19.30% for month, as it fell into the red and posted a 5.91% 2018 decline. Apple (AAPL) declined 11.67%, as it lost its standing as the largest publicly traded issue in the world to Microsoft (MSFT), as Apple posted a loss of 30.12% for Q4 2018, ending 2018 in the red, at -6.79%; Microsoft fell 8.40% but ended 2018 up 18.74%. Investment house Goldman Sachs (GS) declined 12.40%, as it closed 2018 with a 34.43% loss and was down 8.17% from the U.S. November 2016 election.

### **S&P MidCap 400**

The S&P MidCap 400 declined 11.48% for the month, after its 2.93% rebound last month and 9.63% decline in October, as its three-month return was -17.65%, with 2018 posting a 12.50% decline. The declines left the index flat for the two-year period, up 0.15%, as the five-year period still showed some gains, up 23.87%—the lowest of the four core indices.

The index posted declines in all 11 sectors, as it did in November, compared with nine gainers in October. Sector spreads increased from last month; the spread between the best and worst group increased to 17.74% from 16.86% last month and October's 16.62%, as the three-month spread increased to 40.38% from 25.86% last month (and 33.23% in October), with the year increasing slightly to 36.14% from last month's 35.84% (October was 31.69%).

Utilities did the best, declining 4.41% to end the year up 3.85%. Information Technology posted a 9.73% loss and ended 2018 with a 6.03% loss. Consumer groups continued to vary, as Consumer Discretionary fell 12.19% and ended the year down 19.14%, with Consumer Staples off 7.07% for December and down 8.25% for the year. Health Care lost 13.62% for the month, ending the year up 6.16%, the best of any sector. Energy did the worst, falling 22.15% for the month and down 29.98% for the year, and it was down 41.74% over the two-year period.

Breadth turned strongly negative from last month's rebound, as 17 issues gained (an average gain of 2.27%), down from 275 issues last month and 45 in October, while 380 issues declined (an average loss of 13.35%), up from 120 last month (and 352 in October). One issue gained at least 10%, compared with 64 last month, as 250 issues declined at least 10% (an average loss of 17.14), compared with 8 issues last month and 40 the month before that. For the year, 106 issues were up

(average gain of 17.31%), with 286 down (-25.27%), as 57 issues were up at least 10% (28.26%) and 230 were down at least 10% (-30.15%). For the year, 10 issues gained at least 25% (average 51.22%), as 135 issues, 34% of the index, fell at least 25% (-38.91%).

### **S&P SmallCap 600**

The S&P SmallCap 600 posted the worst return for the month of the four headline indices, declining 12.26%, while its three-month return was -20.43%, as it pulled back from its all-time highs. The month pushed the 2018 return into the red, off 9.75%, as the two-year return was 0.83%, with the five-year return at 26.96% (4.89% annualized).

All 11 sectors declined for the month, as they did in October, while six gained in November. Sector variance decreased, as the difference between the best and worst sector was 15.86%, down from last month's 17.76% and the prior month's 16.60%. Utilities did the best, falling 7.68% for the month to post a 3.24% return for 2018. Information Technology also did better than the average, declining 9.47% for the month and down 9.37% for the year. Health Care, which did the best last month (up 5.06%), declined 16.07% in December and posted a 9.77% 2018 gain, the best of any sector in this report. Energy did the worst, as it lost 23.63% of its value during the month, and it was down 43.00% for 2018 and off 58.20% for the two-year period. Consumer groups did better than the average (for both the month and year), as Consumer Discretionary was off 10.00% for December and down 9.26% for year, with Consumer Staples down 11.77% for the month and down 6.43% for the year.

For the month, breadth was strongly negative, as 40 issues gained (an average 7.78% each), down from 361 issues last month and 73 in October. On the down side, 563 issues fell (an average loss of 14.38%), up from November's 241 and October's 530. Gains of at least 10% were posted by six issues (average 36.04%), compared to 112 last month and 10 the month before that, as 386 issues fell at least 10% (-18.56%), up from 112 last month. For the quarter, 52 issues gained (11.62%) compared with 119 last month, as 550 (-24.19%) declined, compared with 481 in November; 24 were up at least 10% (20.99%) and 446 were down at least 10% (-28.44%). For the year, 185 issues gained (28.24%), with 120 of them up at least 10% (41.07%) and 76 up at least 25% (55.14%). On the down side, 415 declined (-28.69%), as 345 were down at least 10% (-33.35%), with 209 (over a third of the index) down 25% for the year (-43.75%).

## S&P Global BMI

Global markets returned strongly to the red (-7.36%), posting their worst month since May 2012 (-9.34%), after November's battle that ended with a profit (1.38%; October was -7.95%). The issues for the past three months (-13.55%) have been the same as for U.S. markets, with the prime one being global economic slowdown. The combined uncertainty, and inability of investors or companies to control the issues, has caused greater anxiety in the markets, along with a decline in confidence.

For the month, global markets posted a broad 7.36% decline, after November's (hard fought) 1.38% gain, as December looked more like October, when markets posted a broad 7.95% decline. The U.S. underperformed, off 9.48%, leaving the ex-U.S. markets down 4.86%. For the three-month period, global markets posted a steep 13.55% decline, but absent the U.S.'s deeper 14.77% loss, they were down 12.13%. For the year, global markets were down 11.84%, but absent the U.S.'s (milder) 7.02% decline, they were off 16.73%. Longer-term yardsticks continued to show the U.S. outperformance pattern, as the two-year global return was 7.38% with the U.S. (10.55%) and 4.03% without it; the three-year return was up 13.93%, but absent the U.S. (21.94%), it was up 5.89%.

For December, the S&P Global BMI decreased USD 3,977 billion (up USD 681 billion in November and down USD 4,488 billion in October) and was down USD 6,787 billion for the year. Non-U.S. markets declined USD 1,099 billion for the month (up USD 208 billion last month and down USD 2,282 billion in October), as U.S. markets declined USD 2,879 billion (up USD 473 billion last month and down USD 2,206 billion in October). The telling stat remains (at this point) that for all of 2018, the non-U.S. markets lost USD 4,327 billion, while the U.S. was down USD 2,460 billion (as the U.S. makes up 52.5% of global markets), with investors split over the key issue of future performance.

For December, global markets were down 7.36% for the month. Excluding the U.S.'s 9.48% loss, they were down 4.86%; for the three-month period, global markets were down 13.55%, and excluding the U.S.'s 14.77% decline, they were down 12.13%. For the year, global markets were down 11.84%, and excluding the U.S.'s 7.02% gain, they were down 16.73%.

Emerging markets were down 2.80% for the month, off 6.21% for the three-month period, and off 15.90% for the year. Developed markets were down 7.85% for the month, down 14.32% for the three-month period, and down 11.37% for the year; excluding the U.S., they were down 5.42% for the month, down 13.65% for the three-month period, and down 16.98% for the year. Sector variance decreased, as all 11 sectors declined (9 were up last month and 4 were up in October). The spread between the best (Utilities, -2.28%) and worst (Energy, -9.83%) sectors for the month was 7.55%, down from last month's 9.09%. For 2018, all sectors were negative, with Health Care as the best, down 0.17%, and Materials as the worst, off 19.16%, resulting in an 18.99% spread (last month it was a 21.80% spread). Emerging markets, which rebounded 4.53% last month, did better than developed, but they still declined 2.80% for the month, as the three-month return was -6.21% and the year was down 15.90%. The two-year return was up 11.18%, and the three-year return was up 20.37%.

For December, 8 of the 23 markets gained, down from 11 last month (2 were up in October). Mexico did the best, up 2.92%, but remained down 16.14% for the year. Peru was next, adding 1.61% (-1.72% for the year), followed by the Philippines, which was up 1.26% for the month (-16.96% for the year). Pakistan again did the worst, falling 12.14% (-7.07% last month and off 44.55% for the year), then China, which declined 6.12% in December (-20.52% for the year), with Turkey the third worst, declining 5.72% (-43.86% for the year). Qatar did the best for 2018, up 22.22%; it was the only positive market



for 2018. Developed markets posted a consolidated 7.85% loss for the month, while the return excluding the U.S. was off 5.42%. For December, all 25 markets declined, compared with 13 gainers last month, and on par with October, when all 25 also declined.

For the month, developed markets fell 7.85%, after last month's 1.05% gain (-7.98% for October), and absent the U.S., developed markets were down 5.42% (0.02% last month). For the three-month period, developed markets were down 14.32% and off 13.65% without the U.S., and the year was down 11.37% and off 16.98% excluding the U.S. Hong Kong again did the best, posting a 0.57% decline (up 6.80% last month), but it remained down 11.46% for 2018. Singapore was next, declining 1.43% (off 14.37% for 2018), followed by Finland, falling 2.00% (-11.31% for 2018). On the down side, Israel did the worst, off 10.08% and falling 3.92% for the year, followed by Austria, which fell 9.84% and was off 25.62% for the year, and then the U.S., off 9.48% and down 7.02% for the year. Of note, Germany fell 5.83% and was down 24.10% for the year, as Japan declined 7.20% and was off 15.02% for the year. All 25 markets were in the red for 2018.

## PERFORMANCE RECAP

Exhibit 2: Monthly Returns							
<b>S&amp;P 500</b>	<b>PRICE</b>	<b>1-MONTH (%)</b>	<b>3-MONTH (%)</b>	<b>1-YEAR (%)</b>	<b>3-YEAR (%)</b>	<b>5-YEAR (%)</b>	<b>FR 12/99 (%)</b>
Energy	424.07	-12.82	-24.40	-20.50	-5.43	-34.93	99.35
Materials	316.62	-7.18	-12.81	-16.45	15.71	8.57	97.94
Industrials	542.16	-10.81	-17.74	-15.00	16.96	19.83	98.32
Consumer Discretionary	781.50	-8.45	-16.70	-0.49	25.84	47.43	161.10
Consumer Staples	521.88	-9.46	-5.95	-11.15	0.67	17.91	150.85
Health Care	1001.18	-8.72	-9.10	4.69	20.16	55.87	206.38
Financials	395.90	-11.45	-13.59	-14.67	23.05	34.33	23.06
Information Technology	1088.31	-8.54	-17.68	-1.62	50.84	85.88	34.79
Communication Services	138.78	-7.39	-13.56	-16.43	-7.42	-10.76	-57.01
Utilities	268.61	-4.31	0.50	0.46	22.10	39.02	88.58
Real Estate	192.36	-7.91	-4.71	-5.64	1.13	29.14	-
S&P 500	2506.85	-9.18	-13.97	-6.24	22.65	35.63	70.62
<b>DOW JONES INDUSTRIAL AVERAGE</b>	<b>PRICE</b>	<b>1-MONTH (%)</b>	<b>3-MONTH (%)</b>	<b>1-YEAR (%)</b>	<b>3-YEAR (%)</b>	<b>5-YEAR (%)</b>	<b>FR 12/99 (%)</b>
Dow Jones Industrial Average	23327.46	-8.66%	-11.83%	-5.63%	33.87%	40.72%	102.90%
<b>S&amp;P MIDCAP 400</b>	<b>PRICE</b>	<b>1-MONTH (%)</b>	<b>3-MONTH (%)</b>	<b>1-YEAR (%)</b>	<b>3-YEAR (%)</b>	<b>5-YEAR (%)</b>	<b>FR 12/99 (%)</b>
Energy	295.61	-22.15	-41.76	-29.98	-30.63	-66.29	68.47
Materials	400.22	-10.19	-19.94	-21.82	25.66	12.07	260.66
Industrials	862.03	-12.41	-18.86	-15.87	30.62	25.40	384.24
Consumer Discretionary	643.38	-12.19	-18.49	-19.14	3.05	2.96	223.44
Consumer Staples	1584.38	-7.07	-8.31	-8.25	5.21	34.05	809.43
Health Care	1696.18	-13.62	-19.99	6.16	40.47	88.52	858.75
Financials	832.55	-11.91	-16.32	-17.63	16.62	33.29	151.64
Information Technology	2172.89	-9.73	-16.99	-6.03	41.03	51.40	157.87
Communication Services	147.82	-10.18	-10.29	0.22	-37.07	-33.52	-68.76
Utilities	548.17	-4.41	-1.39	3.85	38.75	45.65	295.74
Real Estate	204.51	-10.24	-11.64	-10.22	-	-	-
S&P MidCap 400	1663.04	-11.48	-17.65	-12.50	18.91	23.87	273.99
<b>S&amp;P SMALLCAP 600</b>	<b>PRICE</b>	<b>1-MONTH (%)</b>	<b>3-MONTH (%)</b>	<b>1-YEAR (%)</b>	<b>3-YEAR (%)</b>	<b>5-YEAR (%)</b>	<b>FR 12/99 (%)</b>
Energy	320.23	-23.63	-45.89	-43.00	-42.72	-80.89	106.07
Materials	406.33	-13.64	-26.72	-23.10	27.80	-6.83	194.74
Industrials	922.44	-11.92	-23.49	-12.88	29.72	23.64	361.36
Consumer Discretionary	507.59	-10.00	-19.79	-9.26	20.44	13.22	274.52
Consumer Staples	1659.20	-11.77	-14.72	-6.43	25.00	35.21	732.30
Health Care	2587.64	-16.07	-23.10	9.77	50.49	100.95	1329.32
Financials	949.01	-12.02	-14.88	-8.54	29.08	32.43	223.99
Information Technology	604.86	-9.47	-17.80	-9.37	32.60	55.83	121.18
Communication Services	2.80	-14.89	-21.57	-1.41	13.36	10.34	-96.19
Utilities	928.45	-7.68	-6.28	-3.24	33.95	63.77	394.65
Real Estate	171.09	-11.08	-12.33	-15.89	-	-	-
S&P SmallCap 600	844.94	-12.26	-20.43	-9.75	25.78	26.96	327.19

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes. Returns shown are price returns.

**Exhibit 3: Total Returns**

INDEX	1-MONTH (%)	3-MONTH (%)	6-MONTH (%)	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)
S&P 500	-9.03	-13.52	-6.85	-4.38	30.42	50.33	243.03
S&P MidCap 400	-11.32	-17.28	-14.08	-11.08	24.80	34.01	260.53
S&P SmallCap 600	-12.07	-20.10	-16.34	-8.48	31.15	35.96	258.08
S&P Composite 1500	-9.27	-13.97	-7.65	-4.96	30.12	48.63	245.52
Dow Jones Industrial Average	-8.59	-11.31	-2.77	-3.48	44.05	58.85	244.34

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

**Exhibit 4: S&P Global BMI, Emerging, Sorted by December Performance**

BMI MEMBER	1-MONTH (%)	3-MONTH	6-MONTH (%)	1-YEAR (%)	2-YEAR (%)	3-YEAR (%)
Global	-7.36	-13.55	-10.67	-11.84	7.38	13.93
Global Ex-U.S.	-4.86	-12.13	-12.37	-16.73	4.03	5.89
Emerging	-2.80	-6.21	-9.35	-15.90	11.18	20.37
Mexico	2.92	-19.58	-12.94	-16.14	-5.35	-16.83
Peru	1.61	-2.21	-4.57	-1.72	29.33	96.98
Philippines	1.26	5.23	4.66	-16.96	1.43	-1.90
Indonesia	0.77	7.66	7.75	-9.54	5.51	22.79
Malaysia	0.55	-7.95	-6.25	-12.65	9.41	1.96
India	0.38	3.81	-2.22	-11.37	28.01	27.81
U.A.E.	0.28	-5.69	-1.31	-7.98	-9.81	-2.25
Poland	0.09	-3.47	3.40	-16.85	24.90	27.93
Hungary	-0.18	5.69	11.04	-8.47	22.92	63.27
Qatar	-1.19	6.90	16.65	22.22	1.73	3.95
Egypt	-1.25	-8.99	-17.70	-10.26	8.59	-16.22
South Africa	-1.28	-4.29	-11.76	-25.89	-3.20	13.85
Taiwan	-1.75	-12.74	-11.99	-13.19	9.36	21.93
Brazil	-2.09	13.53	18.11	-4.45	17.13	90.42
Czech Republic	-2.63	-8.31	-5.01	-8.20	26.48	18.16
Chile	-3.32	-8.33	-10.08	-20.39	12.75	31.53
Thailand	-3.86	-11.96	-0.23	-12.15	10.50	34.42
Colombia	-4.32	-19.05	-24.21	-19.31	-9.72	10.77
Russia	-5.03	-11.01	-9.00	-9.38	-5.43	40.65
Greece	-5.24	-16.11	-26.15	-32.32	-11.83	-12.04
Turkey	-5.72	3.16	-18.79	-43.86	-24.90	-31.84
China	-6.12	-10.92	-18.74	-20.52	16.07	13.72
Pakistan	-12.14	-22.75	-28.20	-37.69	66.95	38.55

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes. Returns shown are price returns.

<b>Exhibit 5: S&amp;P Global BMI, Developed, Sorted by December Performance</b>						
<b>BMI MEMBER</b>	<b>1-MONTH (%)</b>	<b>3-MONTH</b>	<b>6-MONTH (%)</b>	<b>1-YEAR (%)</b>	<b>2-YEAR (%)</b>	<b>3-YEAR (%)</b>
Developed	-7.85	-14.32	-10.83	-11.37	6.99	13.29
Developed Ex-U.S.	-5.42	-13.65	-13.20	-16.98	2.24	2.57
Hong Kong	-0.57	-5.48	-7.87	-11.46	13.18	9.70
Singapore	-1.43	-7.71	-8.07	-14.37	11.16	10.64
Finland	-2.00	-15.85	-14.31	-11.31	5.44	4.37
New Zealand	-2.24	-5.71	-4.62	-4.11	15.10	22.85
Portugal	-2.51	-13.46	-15.77	-14.62	7.38	-3.10
Denmark	-2.98	-11.44	-10.38	-15.74	11.98	-3.73
Korea	-3.03	-14.49	-13.89	-21.89	12.03	14.55
Sweden	-3.45	-14.40	-8.56	-15.27	0.01	-1.46
Italy	-3.54	-13.59	-17.46	-20.95	2.58	-10.75
Australia	-3.94	-11.52	-13.19	-15.84	-1.99	4.87
United Kingdom	-4.13	-13.05	-15.46	-17.99	-2.39	-7.87
Spain	-4.43	-10.50	-12.85	-18.65	-0.12	-4.71
France	-4.97	-15.54	-13.60	-15.53	6.98	8.62
Ireland	-5.18	-16.57	-21.14	-21.84	-2.84	-9.62
Switzerland	-5.47	-9.59	-3.70	-11.96	6.61	0.08
Netherlands	-5.78	-11.44	-13.54	-15.37	11.48	14.74
Germany	-5.83	-15.90	-16.53	-24.10	-2.70	-2.11
Japan	-7.20	-14.53	-12.58	-15.02	4.83	6.51
Luxembourg	-7.30	-23.31	-17.67	-21.54	-5.94	9.97
Norway	-8.14	-20.37	-15.37	-10.77	6.55	21.28
Canada	-8.28	-16.17	-15.89	-19.38	-8.29	12.40
Belgium	-8.94	-17.65	-21.93	-27.27	-15.07	-21.64
United States	-9.48	-14.77	-9.11	-7.02	10.55	21.94
Austria	-9.84	-21.77	-20.47	-25.62	14.50	20.46
Israel	-10.08	-12.26	-5.78	-3.82	5.29	-12.62

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes. Returns shown are price returns.

<b>Exhibit 6: Price-to-Earnings Ratios</b>				
<b>INDEX</b>	<b>2016</b>	<b>2017</b>	<b>ESTIMATED 2018</b>	<b>ESTIMATED 2019</b>
S&P 500	21.07	21.47	15.97	14.60
S&P 500 Consumer Discretionary	19.45	22.29	19.53	18.09
S&P 500 Consumer Staples	20.99	21.50	17.62	16.84
S&P 500 Energy	-158.88	40.17	14.64	13.23
S&P 500 Financials	16.25	17.45	11.16	10.33
S&P 500 Health Care	18.77	21.21	18.90	14.94
S&P 500 Industrials	19.88	21.06	14.45	13.56
S&P 500 Information Technology	21.27	21.87	16.53	15.19
S&P 500 Materials	23.99	22.06	14.39	13.91
S&P 500 Communication Services	17.91	16.31	11.78	15.70
S&P 500 Utilities	18.06	18.40	16.91	16.35
S&P 500 Real Estate	25.78	36.40	32.66	38.09
<b>INDEX</b>	<b>2016</b>	<b>2017</b>	<b>ESTIMATED 2018</b>	<b>ESTIMATED 2019</b>
S&P MidCap 400	25.73	24.33	16.25	13.78
S&P 400 Consumer Discretionary	17.78	18.76	12.96	12.04
S&P 400 Consumer Staples	24.01	23.47	18.78	17.28
S&P 400 Energy	-9.56	-263.86	252.66	15.04
S&P 400 Financials	20.15	19.51	11.77	10.89
S&P 400 Health Care	26.19	30.96	21.44	18.02
S&P 400 Industrials	20.87	22.44	15.55	13.11
S&P 400 Information Technology	31.15	30.96	20.67	14.47
S&P 400 Materials	23.95	18.64	10.56	9.61
S&P 400 Communication Services	82.36	-12.96	20.00	17.49
S&P 400 Utilities	20.07	20.16	20.65	19.47
S&P 400 Real Estate	28.30	31.33	21.26	-
<b>INDEX</b>	<b>2016</b>	<b>2017</b>	<b>ESTIMATED 2018</b>	<b>ESTIMATED 2019</b>
S&P SmallCap 600	32.73	30.02	20.13	14.73
S&P 600 Consumer Discretionary	20.24	23.27	14.67	12.15
S&P 600 Consumer Staples	21.65	27.78	24.32	19.61
S&P 600 Energy	-6.44	-27.40	-131.24	11.62
S&P 600 Financials	21.61	19.29	13.94	11.98
S&P 600 Health Care	126.38	-513.58	66.47	28.69
S&P 600 Industrials	24.57	23.94	17.11	13.94
S&P 600 Information Technology	35.88	28.87	24.11	14.01
S&P 600 Materials	25.45	22.76	14.67	11.44
S&P 600 Communication Services	41.43	284.00	-280.00	280.00
S&P 600 Utilities	23.24	26.50	23.10	22.23
S&P 600 Real Estate	29.05	33.24	-	-

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

**Exhibit 7: Operating EPS Changes**

<b>INDEX</b>	<b>Q1 2018 OVER Q1 2017 (%)</b>	<b>Q2 2018 OVER Q2 2017 (%)</b>	<b>Q3 2018E OVER Q3 2017 (%)</b>	<b>Q4 2018E OVER Q4 2017 (%)</b>	<b>Q1 2019E OVER Q1 2018 (%)</b>	<b>2017 OVER 2016 (%)</b>	<b>2018E OVER 2017 (%)</b>
S&P 500	26.79	26.68	32.08	19.41	8.54	17.17	26.09
S&P 500 Consumer Discretionary	14.41	20.21	18.40	2.39	-4.56	5.83	13.56
S&P 500 Consumer Staples	13.02	13.54	9.07	-0.40	3.10	7.82	8.46
S&P 500 Energy	62.37	142.18	126.27	158.36	14.60	480.80	117.98
S&P 500 Financials	15.37	30.52	61.56	29.07	18.40	11.77	33.43
S&P 500 Health Care	15.49	6.03	15.57	33.10	34.73	6.24	17.50
S&P 500 Industrials	40.19	20.95	22.11	15.41	-3.81	11.90	23.87
S&P 500 Information Technology	48.54	34.97	36.80	11.34	5.56	33.20	30.10
S&P 500 Materials	18.83	35.58	25.85	32.21	-3.10	31.95	28.06
S&P 500 Communication Services	32.96	39.29	-22.63	11.86	-42.34	3.25	15.72
S&P 500 Utilities	18.67	14.05	10.09	-8.17	-3.15	6.29	9.29
S&P 500 Real Estate	8.76	12.40	7.69	-7.97	-23.49	-24.02	5.18
<b>INDEX</b>	<b>Q1 2018 OVER Q1 2017 (%)</b>	<b>Q2 2018 OVER Q2 2017 (%)</b>	<b>Q3 2018E OVER Q3 2017 (%)</b>	<b>Q4 2018E OVER Q4 2017 (%)</b>	<b>Q1 2019E OVER Q1 2018 (%)</b>	<b>2017 OVER 2016 (%)</b>	<b>2018E OVER 2017 (%)</b>
S&P MidCap 400	25.21	26.63	50.41	23.60	20.85	21.04	30.99
S&P 400 Consumer Discretionary	26.41	15.93	17.92	11.08	5.51	11.72	17.04
S&P 400 Consumer Staples	40.17	14.83	3.79	3.42	-8.67	4.50	14.65
S&P 400 Energy	900.00	-376.50	102.93	-9.30	69.31	96.99	173.13
S&P 400 Financials	9.69	36.41	92.68	26.11	15.84	15.57	36.60
S&P 400 Health Care	15.97	141.59	27.64	58.39	50.51	3.43	53.25
S&P 400 Industrials	29.63	17.77	19.22	21.56	18.30	13.69	21.39
S&P 400 Information Technology	22.10	16.56	39.28	78.73	70.34	25.15	40.71
S&P 400 Materials	32.01	51.35	41.59	24.68	33.84	53.64	37.93
S&P 400 Communication Services	183.04	141.84	162.97	193.19	-6.45	-456.74	164.94
S&P 400 Utilities	10.62	14.54	-8.96	-5.54	5.27	7.47	1.41
S&P 400 Real Estate	33.72	52.87	102.82	-25.83	-31.94	-10.12	32.14
<b>INDEX</b>	<b>Q1 2018 OVER Q1 2017 (%)</b>	<b>Q2 2018 OVER Q2 2017 (%)</b>	<b>Q3 2018E OVER Q3 2017 (%)</b>	<b>Q4 2018E OVER Q4 2017 (%)</b>	<b>Q1 2019E OVER Q1 2018 (%)</b>	<b>2017 OVER 2016 (%)</b>	<b>2018E OVER 2017 (%)</b>
S&P SmallCap 600	27.12	30.78	28.15	50.41	33.04	21.79	34.59
S&P 600 Consumer Discretionary	40.37	58.92	61.98	26.62	26.78	0.71	43.97
S&P 600 Consumer Staples	111.37	-21.97	-46.85	1.59	-34.68	-16.14	6.89
S&P 600 Energy	101.76	-508.75	143.52	176.02	3727.27	82.77	88.10
S&P 600 Financials	25.29	44.20	32.16	9.09	10.46	16.81	26.57
S&P 600 Health Care	677.54	8284.62	-95.82	257.47	130.24	-133.02	950.00
S&P 600 Industrials	8.91	35.49	24.96	17.04	28.45	19.21	21.88
S&P 600 Information Technology	6.00	-0.92	-13.36	37.08	68.55	36.34	8.57
S&P 600 Materials	11.17	32.68	26.11	5.21	16.13	21.69	19.20
S&P 600 Communication Services	0.00	-300.00	-200.00	400.00	100.00	-100.00	-
S&P 600 Utilities	27.61	22.27	-42.03	7.46	9.15	1.51	11.02
S&P 600 Real Estate	-62.29	-6.63	59.26	-	-	-11.43	-28.76

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

**Exhibit 8: Breadth of Change (Issues With Monthly Price Changes as Described by Type)**

<b>S&amp;P 500</b>						
<b>TYPE</b>	<b>DECEMBER 2018</b>	<b>AVERAGE % CHANGE</b>	<b>3-MONTH</b>	<b>AVERAGE % CHANGE</b>	<b>YTD</b>	<b>AVERAGE % CHANGE</b>
Up	14	2.85	67	5.60	174	15.19
Down	491	-10.65	438	-17.54	331	-20.91
Up >= 10%	0	0.00	10	14.35	94	24.81
Down <= -10%	237	-15.47	331	-21.46	245	-26.54
Up >= 25%	0	0.00	1	28.88	33	40.37
Down <= -25%	11	-29.88	93	-32.93	112	-36.72
Up >= 50%	0	0.00	0	0.00	5	65.74
Down <= -50%	0	0.00	1	-52.49	9	-56.43
<b>S&amp;P MIDCAP 400</b>						
<b>TYPE</b>	<b>DECEMBER 2018</b>	<b>AVERAGE % CHANGE</b>	<b>3-MONTH</b>	<b>AVERAGE % CHANGE</b>	<b>YTD</b>	<b>AVERAGE % CHANGE</b>
Up	17	2.27	40	7.13	106	17.31
Down	380	-13.35	356	-21.32	286	-25.27
Up >= 10%	1	17.09	12	15.34	57	28.26
Down <= -10%	250	-17.14	285	-25.18	230	-30.15
Up >= 25%	0	0.00	1	33.54	20	51.22
Down <= -25%	27	-30.59	112	-36.04	135	-38.91
Up >= 50%	0	0.00	0	0.00	10	68.56
Down <= -50%	0	0.00	15	-54.63	14	-60.71
<b>S&amp;P SMALLCAP 600</b>						
<b>TYPE</b>	<b>DECEMBER 2018</b>	<b>AVERAGE % CHANGE</b>	<b>3-MONTH</b>	<b>AVERAGE % CHANGE</b>	<b>YTD</b>	<b>AVERAGE % CHANGE</b>
Up	40	7.78	52	11.62	185	28.24
Down	563	-14.38	550	-24.19	415	-28.69
Up >= 10%	6	36.04	24	20.99	120	41.07
Down <= -10%	376	-18.56	446	-28.44	345	-33.35
Up >= 25%	3	57.27	4	46.10	76	55.14
Down <= -25%	59	-33.81	229	-38.14	209	-43.75
Up >= 50%	1	103.84	1	71.69	36	78.08
Down <= -50%	5	-52.17	33	-61.07	61	-63.56
<b>DOW JONES INDUSTRIAL AVERAGE</b>						
<b>TYPE</b>	<b>DECEMBER 2018</b>	<b>AVERAGE % CHANGE</b>	<b>3-MONTH</b>	<b>AVERAGE % CHANGE</b>	<b>YTD</b>	<b>AVERAGE % CHANGE</b>
Up	0	0.00	5	6.42	14	11.51
Down	30	-8.38	25	-12.60	16	-14.47
Up >= 10%	0	0.00	1	10.44	7	19.35
Down <= -10%	9	-13.46	16	-16.85	9	-20.39
Up >= 25%	0	0.00	0	0.00	1	35.79
Down <= -25%	0	0.00	2	-27.81	2	-30.17
Up >= 50%	0	0.00	0	0.00	0	0.00
Down <= -50%	0	0.00	0	0.00	0	0.00

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

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