BUCKINGHAM
CAPITAL MANAGEMENT
Registered Investment Advisor

Market Insights
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Last year's final quarter certainly did not feel comfortable and pushed the full year total return for the S&P 500 into the red. After nine consecutive years of positive returns, equity markets were perhaps due to record a down year. Last year was especially difficult in that there were few places to hide. International, small, and mid-cap stocks performed even worse than the large cap companies. Except for very short-term fixed income, bonds did poorly as well. Commodities and hedge funds would not have provided attractive offsets either.

Since international, small, and mid-cap equities are all components of a well-diversified portfolio, it may be encouraging to know that month-to-date all these categories have turned around and are currently outperforming domestic large cap stocks. With more reassurance from the Fed that future rate decisions will be data dependent and evidence of continuing trade discussions with China, the negative sentiment that ruled December has become more positive. What began the trading year as the worst two-day start since 2000, has turned into the best five-day start to a year since 2010. The lift in attitude has allowed more focus on the strength of our economy data and market fundamentals.

Unlike the 2008 financial crisis, banks now are on much sounder footing. There were no U.S. bank failures in all of 2018, which is the first year to achieve that record since 2006. The latest economic data suggests growth may be slowing, but it is still positive. This month's jobs report was outstanding, wages are rising, and consumer spending remains solid. Figures on the services side of our economy are especially important since they make up nearly 80% of GDP. This month's Institute of Supply Management Non-Manufacturing Index came in slightly below expectations, but the reading of 57.6 was still high. A reading above 50 indicates growth. Earnings expectations for 2019 came down dramatically in the fourth quarter, which will provide an easier hurdle for corporations to meet especially alongside trade developments and Fed temperance. These factors combined with now more attractive equity valuations support our positive forward outlook for stocks.

When volatility rises, investors may be tempted to wait out heightened market volatility in money market funds. However, even though cash yields have moved higher, they cannot yet beat inflation and cash does not contribute to asset growth long term. Timing today's market perfectly is highly unlikely and puts an investor's long-term goals at risk. The harder, but healthier way to invest is strategically committing to an overall asset allocation, then tactically making small adjustments within those allocations by rebalancing throughout each year.

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