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DiMeo Schneider
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Turbulent Start to 2019

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The New Year is off with a bang as market volatility from late 2018 continues. Plunging treasury yields, particularly in the front of the curve, sent the spread between 10-year and 2-year U.S. Treasuries to 0.16 percent. The U.S. Treasury curve has not been this flat since the summer of 2007, six months before the Great Recession. In our view, the relatively flat yield curve does not portend a recession, but is consistent with a downshift in the global economic outlook against the backdrop of tightening financial conditions. The bond market is sending Federal Reserve policymakers a clear message: No more rate hikes! When Fed policymakers meet at the end of this month we expect no change in the federal funds rate and will focus on potential changes to the Fed's balance sheet reduction program.

In contrast to gains in high-quality fixed income, investors found little solace in global equities thus far in 2019 as a weaker global growth outlook will likely spur downward revisions to corporate earnings estimates. By comparison, as of December 31, Bloomberg consensus estimated 8.3 percent growth in earnings per share in 2018 with three-fourths of the year in the books. For 2019, the consensus still expects earnings growth of 8.3 percent despite peak U.S. GDP growth in second quarter of 2018, declining ISM data and slowing Industrial production reports from U.S., Euro Area, China and Japan. Apple poured soured hopes of New Year optimism this week when the company lowered revenue forecasts for the first time in sixteen years citing an unexpected decline in iPhone sales in China. Share prices promptly fell nearly 10 percent the first two trading days and raised the specter of additional negative surprises from other firms with international revenue sources. Overall, the S&P 500 price index remains 16.5 percent off its all-time high reached in September.

The full impact of tighter U.S. monetary policy following the December FOMC meeting has yet to flow through economic channels. On Friday, at the American Economic Association in Atlanta, Fed Chair Jerome Powell said policymakers are not on a fixed path toward monetary policy normalization and will be patient to see how the economy evolves. His statement gave stocks a much needed reprieve but we caution investors to expect elevated volatility in 2019. We continue to observe credit spreads and long-duration interest rates as barometers for investor risk sentiment.

DiMeo Schneider & Associates, L.L.C. continues to believe that investors should be patient and adhere to a well-constructed, diversified investment portfolio anchored to your goals and time horizon. Despite elevated uncertainty, we do not find compelling reasons at this time that would justify overriding our asset allocation methodology.

For more information and assistance, please contact any professional at DiMeo Schneider & Associates, L.L.C.

About the Author:

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Steve provides investment consulting services to institutional clients and nonprofit organizations. He services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process, fiduciary stewardship, and overall investment management. Prior to joining the firm in 2017, Steve was an Associate Client Investment Officer with Northern Trust Asset Management where he provided comprehensive investment management services to discretionary institutional client portfolios. Steve earned a BA in Economics and Finance from the University of Illinois Urbana-Champaign and a Masters of Analytics from the University of Chicago. He is a CFA® Charterholder and a member of the CFA Institute, CFA Society of Chicago, and The Chicago Council on Global Affairs. Steve enjoys outdoor activities and spending time with family.