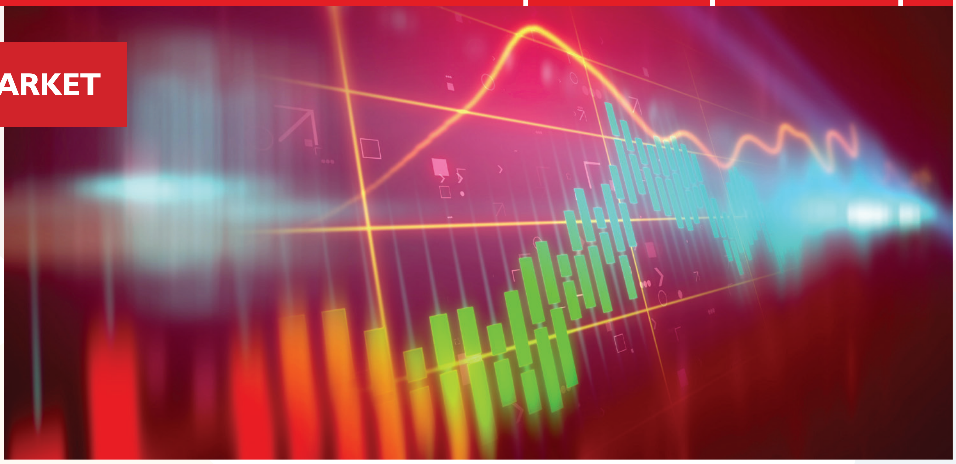
SAFETY ▪ STRENGTH ▪ STABILITY
UNIT TRUST CORPORATION

ADVISORY SERVICES DEPARTMENT

Newsletter

www.ttutc.com/advisory-services

Q4 2018 | Issue 16



VOLATILITY IN THE STOCK MARKET

2018 Review

The global economy started off 2018 with strong, synchronised growth. However, as the year progressed, and growth trends diverged, the momentum faded. Trade-policy uncertainty and geopolitical issues as well as the prospect of resurgent inflation negatively impacted U.S. stocks in 2018. This is quite the opposite of 2017, when U.S. stocks went up almost in a straight line. As a result, many investors were left feeling anxious about their investment portfolios.

The volatility in 2018 saw investors enduring not one, but two corrections. While there is no official definition, a stock market correction is generally defined as a drop of at least 10% from a recent high and it is an inevitable part of investing. No one can accurately predict the timing or depth of a stock market correction and there is also nothing that you as an individual investor can do to stop a correction from occurring.

It is understandable that the significant drops in the stock market would have alarmed investors. However, the reality is that it is quite a common occurrence, and the market typically recovers in a modest period of time.

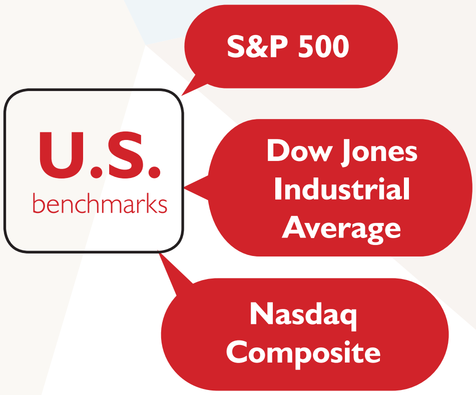
According to investment firm Deutsche Bank, the stock market, on average, has a correction every 357 days, or about once a year. In fact, according to Fidelity, since 1920, the S&P 500 has on average experienced a 5% pullback three times a year, a 10% correction once a year, and a 20% bear market decline every three years.

Market pullbacks and corrections since the beginning of the current bull market (March 2009)

Begin	# of days to trough	% decline	Recovery date	Recover to new high
03/26/2009	4	-5.44%	04/02/2009	3
06/12/2009	28	-7.09%	07/20/2009	10
10/19/2009	11	-5.62%	11/11/2009	12
01/19/2010	20	-8.13%	03/11/2010	31
04/23/2010	70	-15.99%	11/04/2010	125
02/18/2011	26	-6.41%	04/26/2011	41
04/29/2011	157	-19.39%	02/24/2012	144
04/02/2012	60	-9.94%	09/06/2012	97
09/14/2012	62	-7.67%	01/04/2013	50
05/21/2013	34	-5.76%	07.11/2013	17
01/15/2014	19	5.76%	02/27/2014	24
09/18/2014	27	-7.40%	10/31/2014	16
05/21/2015	266	-14.16%	07/11/2016	151
01/26/2018*	9	-10.16%	08/24/2018	241
Average	57	-9.20%	59	59

Source: Bloomberg, Morgan Stanley Wealth Management GIC, Fidelity Investments Inc., as of December 2018

The volatility in the market can be easily seen when you look at the performance of the following three major U.S. benchmarks:

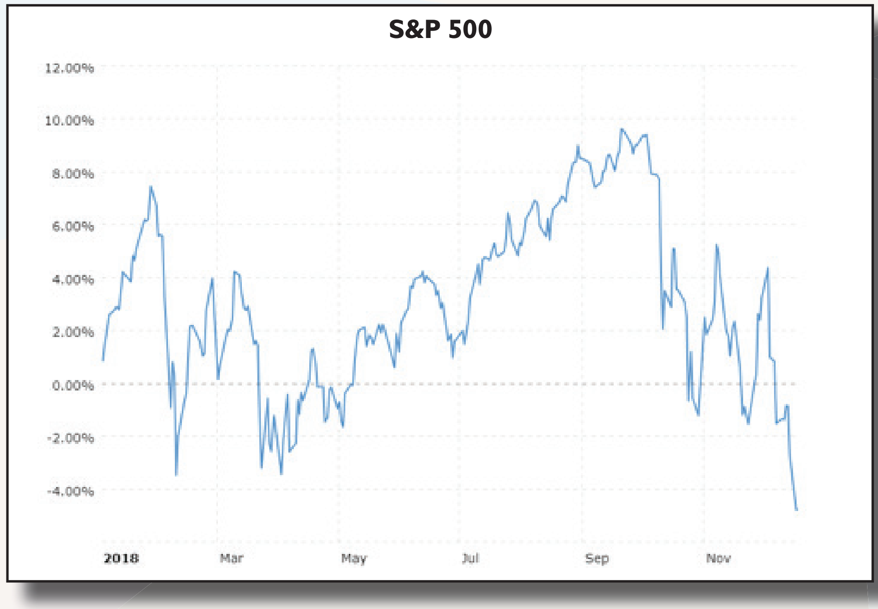


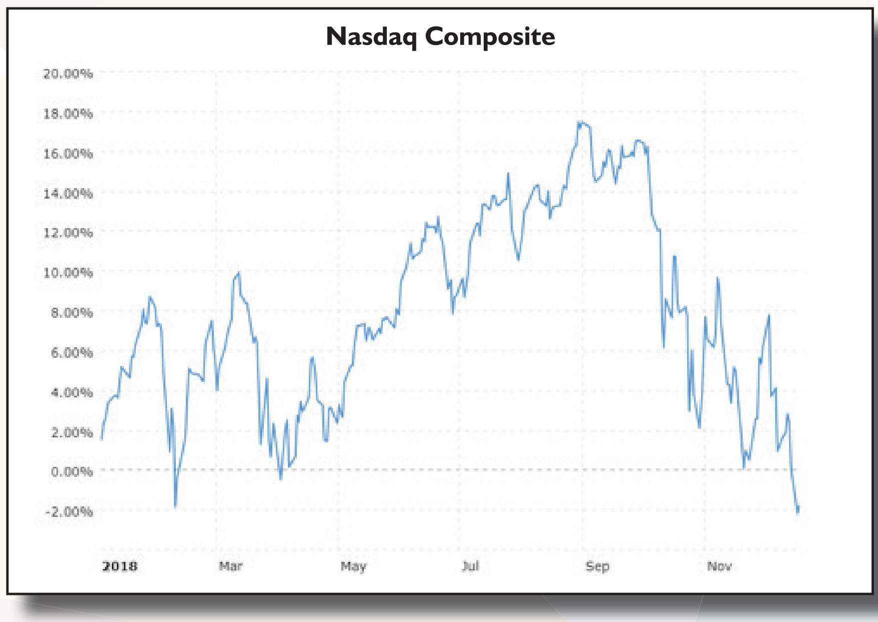
The charts on the right show the performance of the indices in 2018 as a percentage gain from the last trading day of 2017.

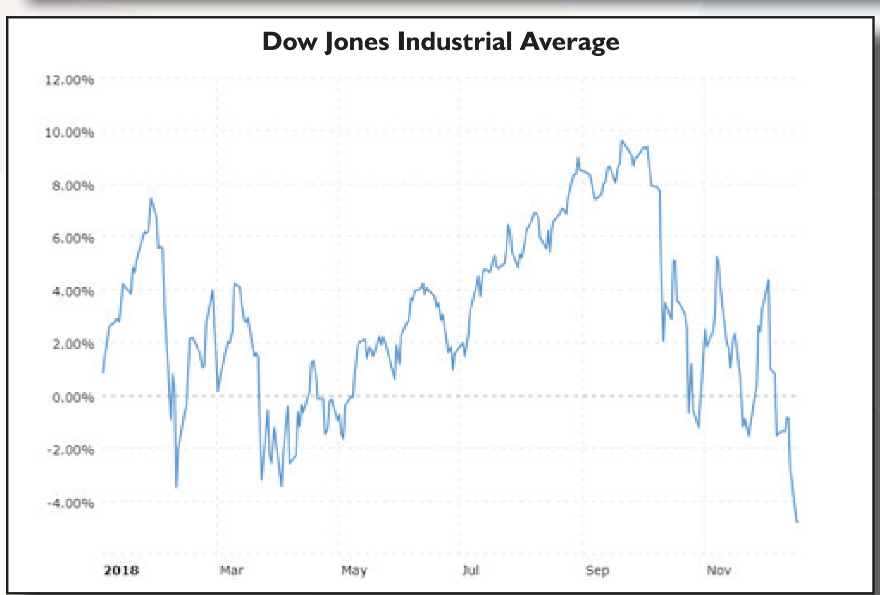
As you can see, the market was strong in the beginning of 2018 but then the first correction happened in February. However, the recovery time differed as the Nasdaq Composite was the first to recover, followed by the S&P 500 and then the Dow Jones Industrial Average in September.

November brought additional trepidation for investors as the S&P 500 succumbed to a second calendar-year correction which hasn't happened since 1990, according to data from Yardeni Research. Meanwhile, the FAANG group of Facebook, Apple, Amazon, Netflix and Google parent Alphabet, who are considered giants in technology stocks, all slumped into bear markets with declines in excess of 20% from recent highs.

As 2018 ended, the Nasdaq entered a bear market as it dropped nearly 22% on December 23, from a recent peak at the end of August, while the S&P 500 and the Dow Jones Industrial Average remained firmly in correction territory with declines of more than 10% from their late September and early October highs, respectively.







Outlook for 2019

After all the volatility experienced in the market in 2018 many investors are concerned that the market will take a turn for the worse as the global economic outlook is shifting, which could lead to new turbulence in markets in 2019.

Experts have varying opinions on what the new year will bring. Bloomberg collated year-end forecasts from stock professionals at 19 Wall Street banks. According to the data, the average prediction is for the S&P 500 to experience a hefty gain of 25% in 2019. It appears that they all think that the current bull market will continue in spite of the current volatility.

The most optimistic prediction is for a gain of almost 35%, which was provided by Deutsche Bank's Chief Strategist, Binky Chadha. On November 30, he released his year-end price target for the S&P 500 for 2019 of 3,250. However, it is worth noting that at this point, the mood of the market was less pessimistic, and stocks were trading 12% higher. His outlook reflects a gain of 34.5% from the close on December 21, 2018.

On the other end of the spectrum, Morgan Stanley's equity strategist, Michael Wilson, provided the most bearish market forecast. He expects the S&P 500 to trade at 2,750 at year-end 2019, which would translate to a gain of 13.8% from the close of December 21, 2018.

Goldman Sachs, according to its official outlook report, believes the bull market will continue in 2019, but it could get choppier as the year continues and investors may look further into the future and begin to worry about a recession in 2020.

Goldman Sachs' Chief Equity Strategist, David Kostin, in a note to clients stated that, "For equity investors, risk is high, and the margin of safety is low because stock valuations are elevated compared with history."

While there's heightened risk of an economic slowdown next year due to uncertainties tied to the outcome of the trade dispute between the U.S. and China and the pace of interest rate hikes from the Federal Reserve, a recession is not expected by the stock strategists.

On the other hand, the experts are more concerned about a slowdown in corporate earnings growth to single-digit percentage gains. This would be a drastic drop compared to 2018, when profits grew by more than 20%. Not only will profit growth be hurt due to tougher comparisons with 2018, they will also slow due to the fading benefits from President Donald Trump's corporate tax cuts, a slowdown abroad in Europe and China, and the negative effects of higher borrowing costs.

Another factor to be on the lookout for in 2019 is rolling or stealth bear markets where certain stocks or market sectors fall into bear territory, even if the overall market isn't quite there yet. Discipline around diversification and rebalancing will be important in 2019 as the risk of a recession rises. It is also worth noting that historically stocks have posted their weakest performance during the six months leading up to recessions.

Investment Checklist

With all the volatility in the market, you, as an investor, should be considering ways to preserve your capital, which is the key to successful long-term investing. While risk is an inherent part of investing, the following strategies will help to protect your capital in these uncertain times:

1. **Diversify your investments**
   Diversification is a key tactic to mitigate risk as it allows you to spread your risk across different asset classes so losses in one would not necessarily affect the others thereby minimising the impact. Geographical diversification is also important as investing in different markets around the world not only allows you to reduce your risk but also provides you with the opportunity to increase your potential returns.

2. **Invest in alternative assets**
   Alternative asset classes, for example commodities, can be negatively correlated to the stock markets so that when traditional stocks are down, alternative stocks usually go up, and vice versa, allowing you to benefit no matter the market conditions.

3. **Adopt a rules-based approach**
   This can help you to make the tough decisions as it removes emotional bias. This could be as simple as deciding the lowest price you would be willing to sell an investment to limit your losses if the price starts to decline. In the moment you will not have to worry as you would have done your research and made the decision in a less excited and tense space.

4. **Don't discredit cash**
   We all know that cash doesn't pay much and due to inflation, its value erodes over time, but it can be quite useful in the short term as its value stays constant and will not change if markets crash. Holding cash is one of the easiest ways to hedge your portfolio and reduce investment losses if the markets turn and your investment strategy is not working out as planned.

Mail: Ms. Karrian Hepburn
Chief Customer Relationship Officer
c/o UTC Advisory Services
3rd Floor, UTC Financial Centre
82 Independence Square
Port of Spain

Tel: 624-8648 Ext. 8204

Email: yourwealthmanager@ttutc.com

www.ttutc.com/advisory-services

About the Advisory Services Department

The Advisory Services Department of the Trinidad and Tobago Unit Trust Corporation was established to serve our valued clients seeking financial and investment advice and solutions from a trusted service provider. We will assist you in enhancing your personal wealth and financial well-being by providing you with financial counselling, investment advice and solutions.

Partners for Life