American National Bank & Trust™
TRUST AND INVESTMENT SERVICES

Fourth Quarter 2018 Review
December 19, 2018

"Technology is overpowering the market's ability to deal with it!"

Leon Cooperman
Chairman/CEO/Founder, Omega Advisors Inc.

Equities are down 13.1% from their high on September 20th to the low on December 17th, a welcome and healthy correction for the market. Even though the market has experienced a healthy correction, it has been downright terrifying at times. The increase in passive investments, along with the increase in computer models / algorithmic formulas, has significantly increased short-term market volatility.

Although painful, the selloff in the equity market is a good thing. Global growth is expected to slow slightly from 3.8% to 3.5% due to tightening financial conditions, the fading fiscal stimulus from the Federal Reserve and further economic softening in China. Even though the economy looks softer, growth is still positive and remains above the long-term trend. We may yet escape a recession in 2019 or 2020 that had been projected by many earlier this year.

With the significant increase in sovereign balance sheets, the possibility of inflation has been of great concern. Fortunately, global inflation has been ticking higher but still remains well below central-bank goals worldwide. In the US, core inflation remains in check at around 2.25%.

The US labor market remains tight and that has translated into higher wages and prices. Not only has this been true in the US, but in Europe and Japan as well.

The estimated P/E ratio for the S&P 500 was at 20x last December. Currently it is 15.7x, and is at the lowest level since February of 2016. We expect lower equity returns but overall returns still remain positive for 2019.

Monetary Policy has been accommodative worldwide until recently. Slowing growth, although still above potential, and firming inflation ought to give the G10 central banks a reason to gradually remove accommodation. In fact, there is quite a bit of debate concerning whether the FOMC will continue to increase short-term rates in 2019.

Global and domestic political uncertainties will continue to be important drivers for both returns and volatility. Brexit, Italy, France, Saudi Arabia, the US Congress and President Trump, to name a few, continue to add to the level of uncertainty.

As Mr. Cooperman stated above, much of the volatility we have been experiencing recently would have worked itself through the market, but technology significantly increased the speed and the force by which it influences the market.

While the market volatility is unsettling, it does not materially change the ebb and flow of the business cycle. The current business expansion, at 9.5 years and counting, will eventually be followed by a recession. The unanswered questions are when that recession will begin and how deeply it will cut. Successful long-term investors understand that the key to their success lies not in timing the market but time in the market.