# Capital market update: The great push-pull

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Capital markets have remained volatile throughout the fourth quarter. Investors have had a lot to digest: midterm elections, trade tensions, conflicting views about energy output amongst major world suppliers, uncertainty regarding future interest rate policy, as well as the usual spate of global economic data and corporate earnings reports. Since reaching the highs in late September, U.S. equities (as represented by the S&P 500) have fallen more than 6 percent while international developed stocks (as represented by MSCI EAFE Index) have dropped over 9 percent, emerging market stocks (as represented by MSCI EM Index) have fallen more than 4 percent, and crude oil (as represented by West Texas Crude WTI) has tumbled over 25 percent. One welcomed development over the time period has been positive results from traditional bond proxies that had been challenged earlier in the year.

Our viewpoint remains that the outlook for portfolio returns is more balanced right now than it has been, predominantly because of two central factors. First, global economic growth is slowing from 2017's robust and globally synchronized economic recovery. We see this reflected in data we track within our research analysis, as well as from cross-industry corporate earnings reports. Second, policymakers are gradually shifting away from accommodative pro-growth policies (such as buying assets and retaining low interest rate targets), feeling that inflationary pressures warrant higher interest rates and less of a growth push from governments and government agencies.

A third factor gripping markets is trade policy, with the United States and China as the leading actors on this important stage. Specifically, investors worry that the global economy may risk having to recalibrate to a world with dynamic trading relationships, where supply chains, companies and workers are forced to readjust to a new trading paradigm. As countries become more inwardly focused, the potential changes to existing relationships leaves investors anticipating an uncertain future path.

The last few trading sessions have been microcosms of the push-pull of economic data, central bank policy concerns and trade negotiations. The tone of data has been generally sluggish, leaving investors feeling somewhat guarded. Heading into an important G-20 meeting in Buenos Aires this past weekend, investors were optimistic that China and the United States could come to a trading pact agreement. Hopeful headlines emerged on Saturday and investors reflected a sanguine view towards future negotiations. However, as today's trading session unfolded, it appears investors are looking for more details and a concrete timeline before following through with more optimism.

## Our investment guidance

While it is difficult to predict policy outcomes, our ongoing analysis of policy, corporate earnings and the economy leads us to conclude that the great push-pull of policy headwinds and a slowing economic trajectory could leave us in a volatile capital market environment for the next few quarters. That does not mean that we are pessimistic about the path forward, but instead realistic that the current capital market environment will be forced to go through an absorption and reactive phase.

We continue to stress a globally diversified approach. As we have discussed in prior missives, diversification has not necessarily proven to be helpful over the past few years, with U.S. equities dominating returns. However, our view is that in an uneven growth environment, with policy risks and rewards aplenty, having multiple return streams working for your portfolio may potentially prove to be more helpful than recent experience.

As always, if we can help with your specific and unique situation, please do not hesitate to let us know.

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