301-770-9880
www.burtwealth.com

ECONOMY: Data Continues to Support U.S. Growth

GDP GROWTH REMAINS ABOVE TREND

The second estimate of Q3 U.S. GDP growth came in unrevised at 3.5%. This remains well ahead of economists' estimates of U.S. growth potential of around 2.0%. Tax cuts, consumer spending and business investment all benefitted the economy in Q3.

FROM HAWK TO DOVE

Addressing the Economic Club of New York, Fed Chair Jerome Powell took a much more dovish approach to U.S. interest rates. *"Interest rates are still low by historical standards, and they remain just below the broad range of estimates of the level that would be neutral for the economy."* This was in stark contrast to his October 3rd remarks when he noted that rates were *"still a long way from neutral."* This would appear to imply that the Fed is likely to halt or at least slow the pace of future rate hikes.

HOUSING DATA MIXED

The National Association of Homebuilders (NAHB)/Wells Fargo Housing Market Index suffered its largest decline in November since February 2014. Builders noted declines in the assessment of current sales and future sales expectations. At the same time, single family building permits (housing starts) declined 0.6% in October, while existing home sales rose 1.4%.

FINANCIAL STABILITY REPORT

The Federal Reserve released its inaugural *Financial Stability Report*, with the goal of assessing the resilience of the U.S. financial system. In its report, the Fed noted that household borrowing has grown roughly in line with the overall economy, and is largely concentrated among low risk households. Banks are well capitalized and hold more liquid assets compared to a decade ago. The report suggests some caution, however, regarding business debt and asset valuations. Corporate debt is at record levels and increasingly in the form of high yield debt. Additionally, commercial real estate (CRE) prices have outpaced rents for several years, and capitalization rates have fallen considerably.

CONFIDENCE DECLINES, BUT STILL STRONG

The Conference Board ***Consumer Confidence Index***® declined in November, following an improvement in October. *"Despite a small decline in November, Consumer Confidence remains at historically strong levels. Consumers' assessment of current conditions increased slightly, with job growth the main driver of improvement. Expectations, on the other hand, weakened somewhat in November, primarily due to a less optimistic view of future business conditions and personal income prospects. Overall, consumers are still quite confident that economic growth will continue at a solid pace into early 2019. However, if expectations soften further in the coming months, the pace of growth is likely to begin moderating."*

GLOBAL GROWTH SLOWING

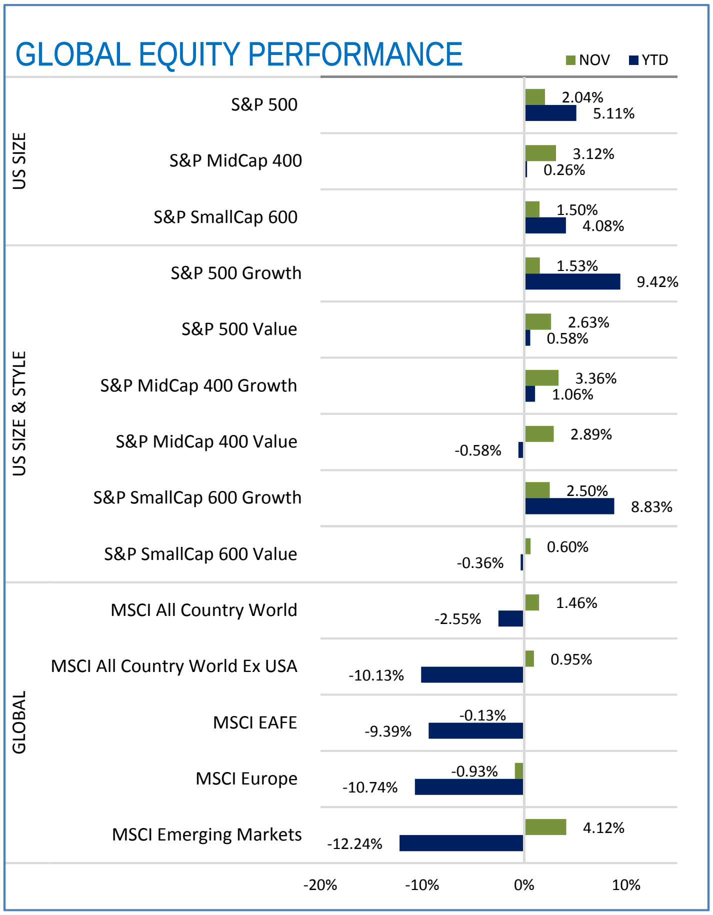
One of the markets current concerns is the slowing of global growth that has been present in several global economies:

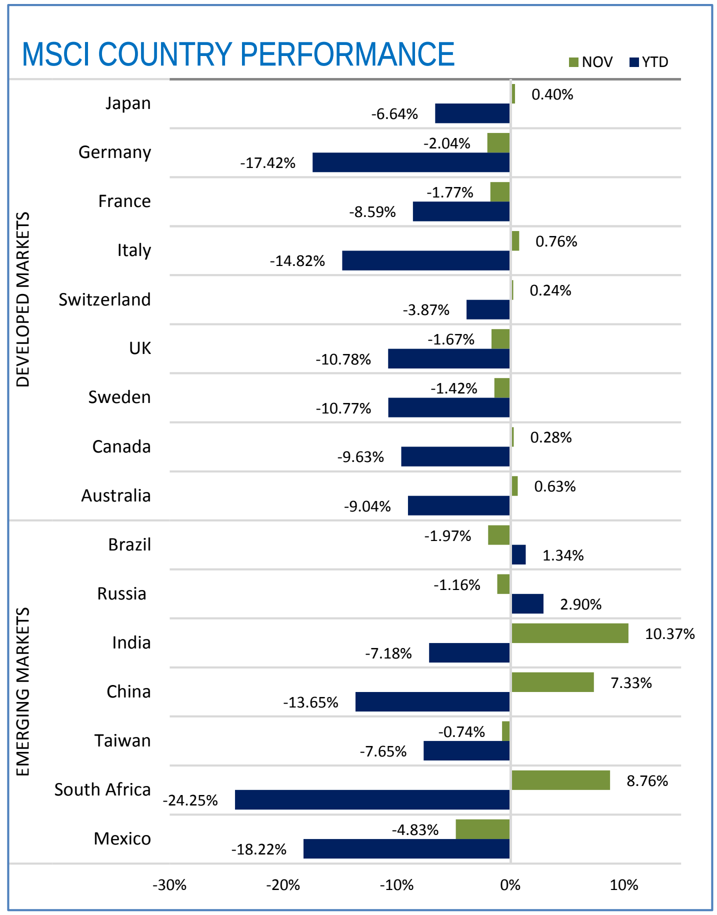
- The Indian economy grew 7.1% year-over-year in Q3, a significant slowdown from the 8.2% gain in Q2.
- GDP in Canada slowed to a 2.0% annualized rate in Q3. However, the recent trade deal with the U.S. and Mexico removes much of the uncertainty moving forward.
- German GDP growth contracted 0.2% in Q3, recording its weakest performance since Q1 2013 and the first quarterly contraction since Q1 2015.
- GDP in Sweden unexpectedly contracted 0.2% in Q3. The weakness was due to weak retail sales and falling household consumption. It was the first drop in quarterly GDP since Q2 2013.
- In Switzerland, GDP growth also fell 0.2%, citing weakness in international trade - primarily exports to the eurozone.

BEGINNING OF THE END?

At a post-G20 summit meeting in Buenos Aires, President Trump and his Chinese counterpart Xi Jinping agreed to halt new trade tariffs for 90 days. The U.S. agreed not to increase tariffs on $200bn of Chinese goods from 10% to 25% beginning in January 2019. This was the first face-to-face meeting between the two leaders since a trade war between the two countries erupted earlier this year.

GLOBAL EQUITIES: Earnings, Interest Rates & Trade





Earnings Growth Still Strong

The underlying issues remained, although the data, comments, and market perceptions changed in November. Concern over a slowing economy remained the key short-term issue, while consumer spending, labor and material costs, tariffs and interest rates contributed to the longer term uncertainty. The S&P 500 gained 2.04% in November, partially recovering from a 6.84% October slide. The index briefly entered correction mode, closing down 10.17% on Nov. 26, from its Sept. 20, high. For Q3 2018, 97% of issues have reported earnings and 77% of companies beating estimates and 60% beating on sales. Both earnings and sales for the S&P 500 posted new records.

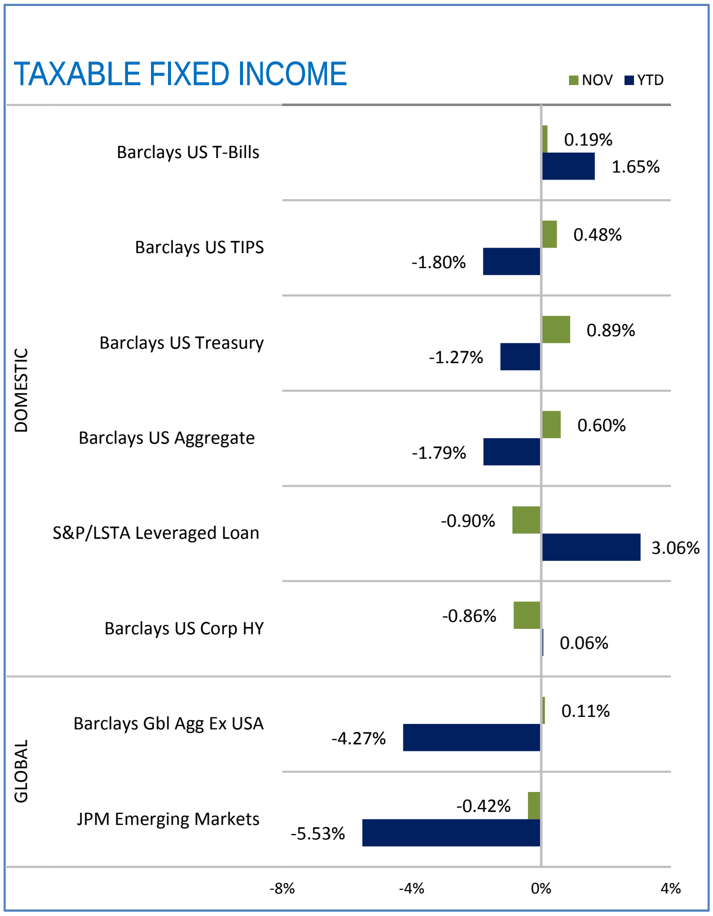
Europe Struggles

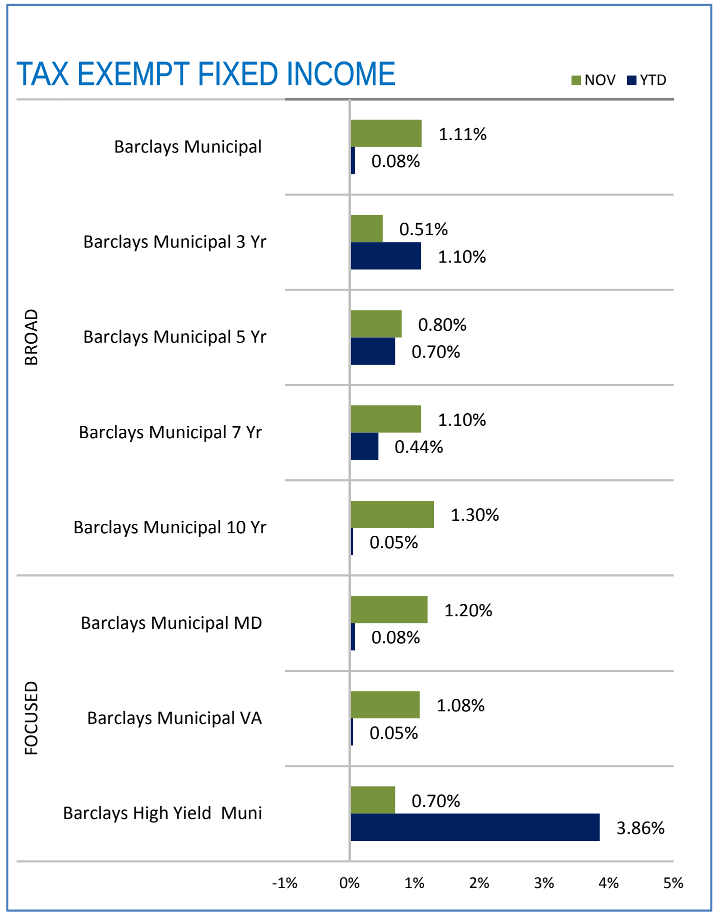
Eurozone equities continued to struggle during November, ending the month lower as investor sentiment continued to be weighed down by political noise – Italian budget as well as Brexit, trade tensions and weaker oil prices. The earnings season in Europe also failed to inspire markets, as November witnessed more earnings misses than hits. Italy and Spain both rebounded with small gains after suffering large losses in October. The MSCI Europe Index closed the month down 0.93%.

Rates & Trade Truce Boost EM

Global emerging equity markets overcame initial weakness to finish the month in positive territory, gaining 4.12% in November. The advance gained momentum during the last week of the month, following less aggressive comments from the U.S. Federal Reserve. Asia led the way, with gains here being led by Indonesia (12.26%) and India (10.37%). A temporary truce in the US-China trade war at the G20 meeting in Argentina provided a boost to Chinese equities which gained 7.33% for the month.

FIXED INCOME: Near the Neutral Rate?





More Dovish Tone From The Fed

During a much anticipated speech in late November, Fed Chairman Jerome Powell adjusted his position of the monetary policy rate from being probably “a long way from neutral” to being “just below” that level. In economics, the “neutral interest rate” or “neutral rate” is the level of interest rates that supports the economy at full employment and maximum output while maintaining a stable level of inflation. Powell noted that the Fed will continue to move slowly and could be more data dependent. His comments appear to imply that the Fed may be near the end of its rate hiking cycle, and at a minimum will slow the pace of future hikes.

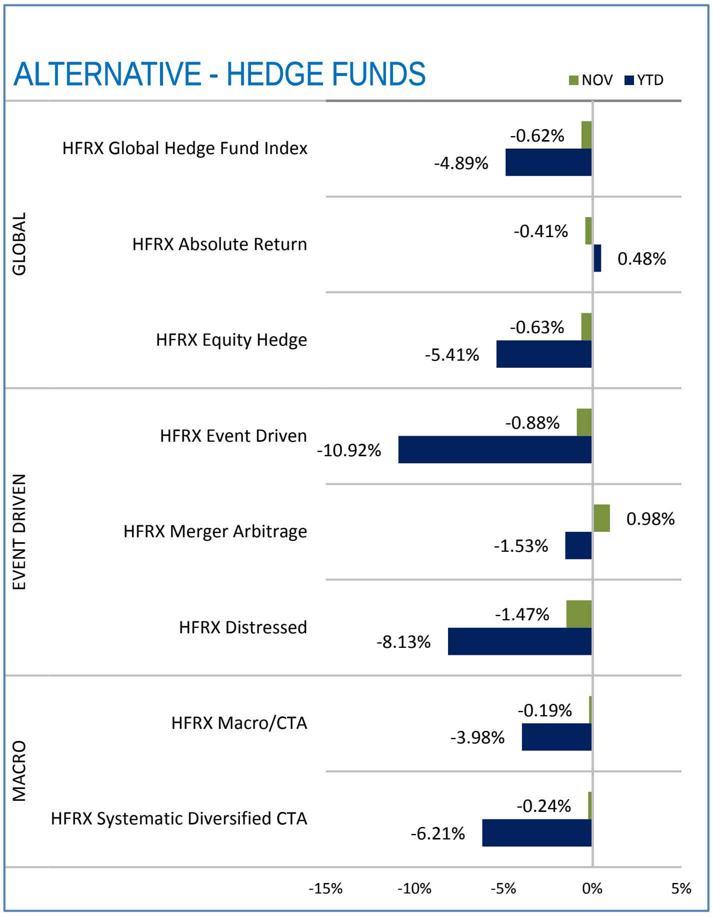
Treasuries To The Rescue

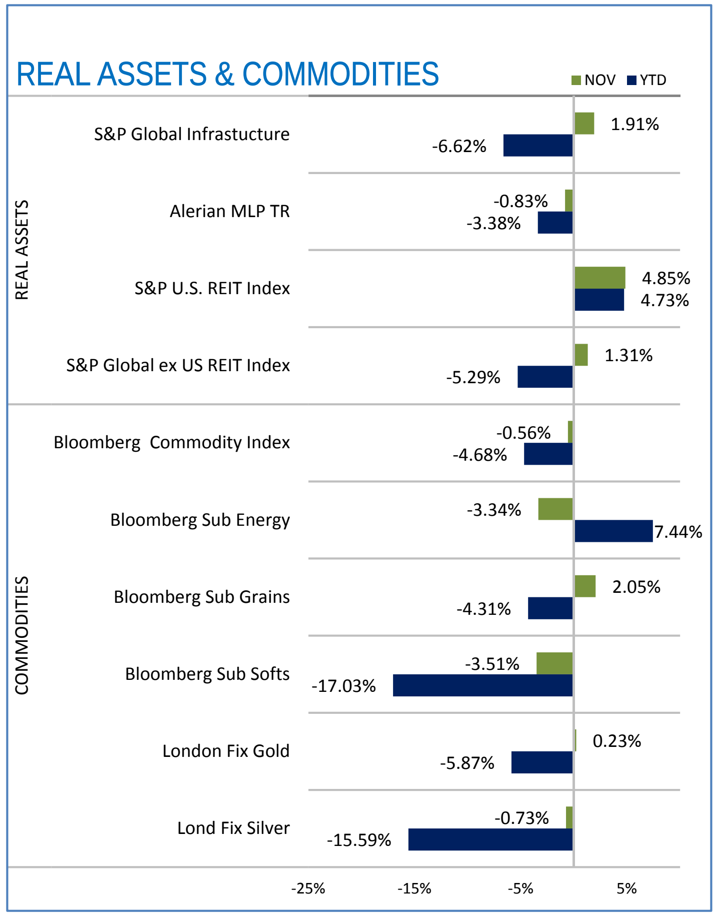
The 10-year U.S Treasury yield rose to 3.23% on Nov. 8 before declining to 3.01% at month-end as the Fed adopted a more dovish tone, key inflation measures came in lower than expected, and investors sought the safety of U.S. Treasuries. The yield curve continued to flatten, with the 2’s-10’s spread (yield differential between the 2 & 10-year U.S. Treasury) narrowing to 0.20% by months end. Higher quality issues generally outperformed lower quality issues in November, while the Barclays U.S. Aggregate Bond Index gained 0.60%, primarily due to the strong performance in U.S. Treasuries.

Strong Month For Munis

The municipal market rallied last month as yields fell across the tax-free curve, even outperforming comparable maturity Treasuries which were supported by weaker inflation data and a more dovish tone from the Fed. The rally in rates last month led to positive returns across the municipal market with long-term maturities outperforming shorter segments of the curve. The Barclays Municipal Index gained 1.11% in November. Similar to the taxable market, higher credit quality issues outperformed lower credit quality issues (high yield municipals).

ALTERNATIVES: Oil Prices Drop 22%





HEDGE FUNDS MIXED

Hedge funds experienced a mixed recovery from October declines in the month of November, as gains across arbitrage, credit and emerging markets were offset by exposures to energy and basic materials. The HFRX Global Hedge Fund index declined 0.62% in November. Event-Driven strategies also posted a decline for the month, with the HFRX Event Driven Index falling 0.88%. Within this sector, merger arbitrage strategies gained 0.98% while distressed strategies fell 1.47%.

RATES & OIL

Falling interest rates helped buoy several real asset investment sectors. More dovish Federal Reserve comments towards month end pushed down interest rates across the yield curve. This helped U.S. REITs gain 4.85%, and global infrastructure gain 1.91% for the month. Commodities and MLPs saw minimal declines despite the price of oil declining 22% in November, the largest monthly loss in over a decade.