



# Economic & Market Commentary

## Market Update – November 2018

After a painful October, global stock markets (+1.4%) rebounded modestly in November. Bond markets also had positive returns for the month. In the final days of the month, Federal Reserve Chair Jerome Powell issued a statement that monetary policy was approaching neutral which fueled the market gains.

### Economy

- The second estimate of 3<sup>rd</sup> quarter real GDP growth was unchanged from the first estimate at an annualized rate of 3.5%.
- Inflation, measured by the Consumer Price Index for all goods, rose slightly to 2.5% year-over-year.
- Unemployment remains at 3.7%, its lowest since 1969.
- Consumer confidence tempered slightly but remains high.

### Stocks

- U.S. large stocks rose 2.0% in November with value stocks (+3.0%) besting growth stocks. Small cap stocks also had gains to a lesser extent (+1.6%).
- Outside the U.S., developed markets were essentially flat to slightly negative, while emerging markets rallied 4.1%. Year-to-date, international stocks are still struggling and remain in negative territory.

### Bonds

- Bond returns were slightly positive in November, with international (hedged) bonds leading the way, up 0.6%.
- Year-to-date, short-term (+1.2%) and international bonds (+2.1%) are the leaders, while intermediate-term and inflation bonds are down slightly.

### Alternatives

- Global REITs (+3.6%) experienced a rally along with global stocks.
- Other alternative asset classes struggled to produce positive returns in November (commodities -0.6%, managed futures and reinsurance, each -0.9%).

### Fuel Up (It May Not Last)

Prices at the gas pump dropped toward the lowest of the year as a result of the price of crude oil per barrel dropping for several months. In fact, oil prices have been dropping so much that they are considered to be in a bear market, down more than 30% from the intra-year high of \$76.40 in October.

The price of crude oil was \$60.46 per barrel on 12/30/17 and stood at \$50.93 as of 11/30/18. As crude oil inventories climbed, the excess production and softer demand pushed prices down. When it comes to commodities such as oil, supply and demand are typical drivers of price movements.

Oil exporting countries attempt to manage the overall production levels to align with expected demand. To do this, OPEC (15 countries) and its production allies work to establish agreed-upon production targets. The expected outcome of the Dec. 6 OPEC meeting is to agree to a cut in the crude oil output.

However, in advance of that OPEC meeting, Russia (non-OPEC) announced it would agree to Saudi Arabia's (OPEC's de facto leader) production cut. Separately, another announcement was the truce in the tariff trade dispute between the U.S. and China (which had also been hampering the demand for oil).

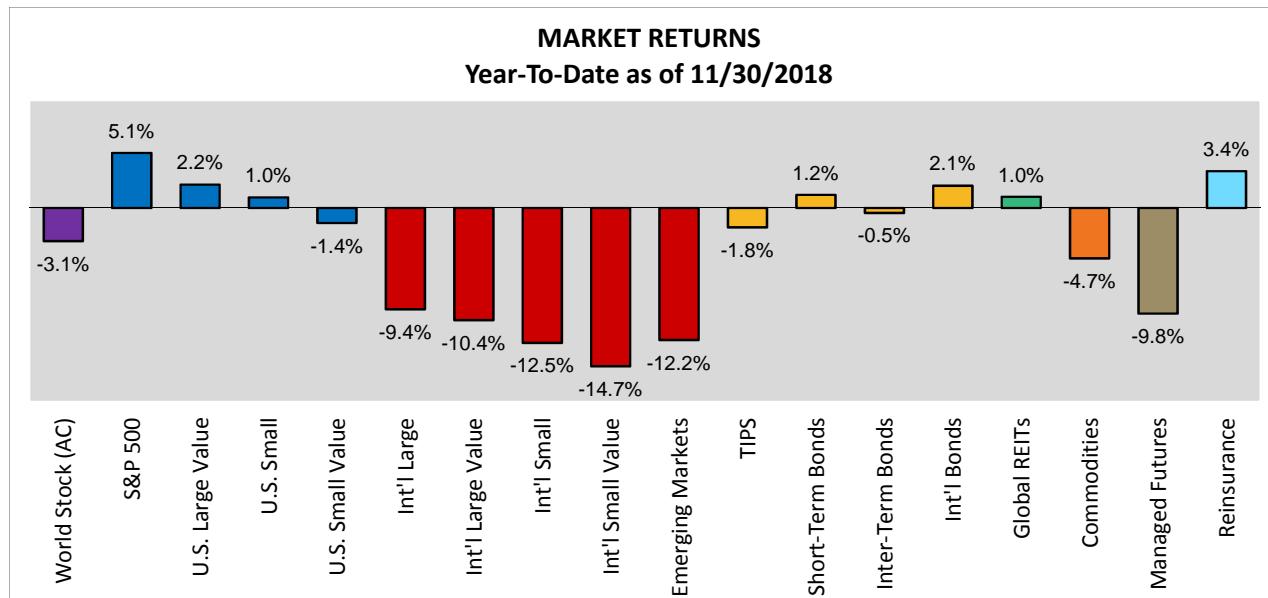
As a result of the Russia and U.S./China announcements, worries over the future supply/demand imbalance lessened, and the price of oil began to move upward as the month of December got underway (although it continues to be volatile).

The price movement of oil is a continual cycle of supply and demand forces which will not change. As consumers, the good news is that when oil prices fall, we benefit at the pump. As investors, when oil prices rise, we can benefit from investing in a diversified commodities fund that has exposure to the energy sector.

Sources: Bureau of Economic Analysis (BEA), Federal Reserve, Morningstar Direct, Standard and Poor's, MSCI, Wall Street Journal

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MARKET RETURNS - Longer Term Annualized as of 11/30/2018							
	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
<b>STOCKS</b>							
S&P 500	2.0%	5.1%	8.1%	12.2%	11.1%	14.3%	8.8%
U.S. Large Value	3.0%	2.2%	6.7%	11.0%	9.5%	12.6%	8.4%
U.S. Small	1.6%	1.0%	8.0%	10.1%	7.5%	14.0%	8.6%
U.S. Small Value	1.8%	-1.4%	8.0%	9.4%	7.4%	13.9%	8.9%
Int'l Large	-0.1%	-9.4%	0.6%	4.1%	1.8%	7.5%	5.6%
Int'l Large Value	-0.6%	-10.4%	-0.2%	3.9%	0.7%	6.6%	5.2%
Int'l Small	-0.5%	-12.5%	3.5%	6.3%	5.2%	11.7%	8.6%
Int'l Small Value	-0.8%	-14.7%	3.4%	5.7%	4.6%	11.4%	8.9%
Emerging Mkts	4.1%	-12.2%	0.4%	9.4%	1.9%	9.1%	8.6%
World Stock (AC)	1.4%	-3.1%	4.1%	8.5%	6.1%	11.0%	7.4%
<b>BONDS</b>							
TIPS	0.5%	-1.8%	3.0%	1.7%	1.3%	4.1%	3.8%
Short-Term Bonds	0.2%	1.2%	0.8%	0.6%	0.4%	0.4%	1.4%
Inter-Term Bonds	0.5%	-0.5%	3.0%	1.1%	1.5%	3.1%	3.3%
International Bonds	0.6%	2.1%	4.2%	3.1%	4.1%	4.0%	4.4%
<b>ALTERNATIVES</b>							
Global REITs	3.6%	1.0%	4.5%	5.8%	7.7%	13.1%	8.1%
Commodities	-0.6%	-4.7%	-6.2%	1.6%	-7.3%	-3.5%	-1.5%
Managed Futures	-0.9%	-9.8%	2.8%	-3.0%	2.2%	1.1%	5.0%
Reinsurance	-0.9%	3.4%	6.6%	3.6%	4.2%	7.0%	7.1%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mty Index, Inter-Term Bonds-Barclays Inter-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

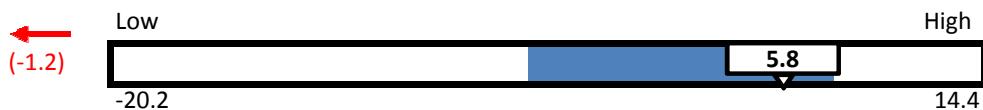
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## Economic Indicators

### **Leading Economic Index Year over Year Change (%)**



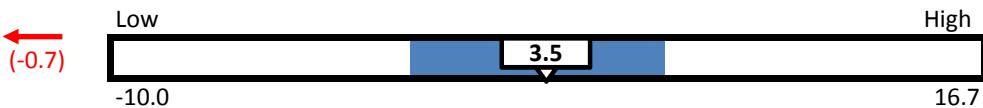
### **Unemployment (%)**



### **Inflation CPI (YOY %)**



## Real GDP Growth (%)



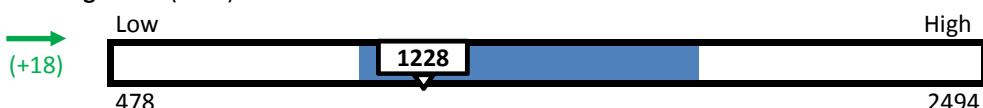
## Consumer Confidence



## VIX - Market Volatility



### Housing Starts (000s)



### 10-year Treasury Yield (%)



Typical range (within 1 standard deviation of the median)

### Current Value

### Historical Range

 Change in value since last month

*\*See appendix for sources and data rai*

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# Appendix

## **Leading Economic Index Year over Year Change (%)**

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. The value shown represents the 12-month change in the index level. (*Data Source: The Conference Board. Monthly data since 1/1/1959*)

## **Unemployment**

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. (*Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948*)

## **Inflation CPI (YOY)**

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. (*Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948*)

## **Real GDP Growth**

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. (*Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947*)

## **Consumer Confidence**

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. (*Data Source: The Conference Board. Monthly data since 1/31/1991*)

## **VIX**

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. (*Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990*)

## **Housing Starts**

The number of housing starts (new construction) in the U.S. each year. (*Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959*)

## **10-year Treasury**

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. (*Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962*)

## **Disclosure**

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