BERMAN CAPITAL ADVISORS

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# October Market Turmoil

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Global equity markets have taken a sharp turn lower in October. Month to date through October 24th, the S&P declined -9.1%, erasing almost all of 2018's gains. The market move had the classic signs of a fearful reaction, with defensive sectors outperforming and high momentum stocks dropping the most. Although higher interest rates were allegedly the trigger for the selloff, utilities and consumer staples, sectors with higher-yielding stocks usually hurt by rising rates, outperformed as they are perceived as defensive. Bonds provided little solace in this move, which should highlight the need for uncorrelated investments in a portfolio.

The market has continued to be bothered by ongoing tariff / trade war concerns, and we should not expect any substantive news until after the U.S. midterms. The President's attacks on the Federal Reserve are also causing some frayed nerves, although the history of Presidential jawboning of the Fed is a long one. In the meantime, geopolitical issues have also been unsettling. Saudi Arabia has come out strongly saying it will be a reliable supplier of crude, partly in an effort to change the conversation from the killing of journalist Jamal Khashoggi in the Saudi Embassy in Turkey. Italy's coalition minority government is provoking a standoff with the Eurozone authorities by presenting a budget that is intentionally out of line with the Maastricht treaty (2.4% versus 2.0%). This is a political conflict that is unlikely to have much economic impact. The new Italian government will still stop well short of risking Italy's exit from the Euro.

What's our take on all this? First, there are real concerns, and we always watch the price momentum of the market itself when making up or downshifts in equity exposure. That said, economic fundamentals are largely positive, which leads us to think this is a sell-off in reaction to too much complacency among investors. Most notably, recession risk is very low. Most lasting bear markets go hand in hand with recession and/or the Fed raising rates sharply. Along those lines, the Fed is raising rates slowly and predictably, not sharply. The Fed is likely to take a breather around 3% and see how the economy is progressing. None of this is new news, and it isn't of concern on its own.

We are now in earnings season, and it's shaping up fine in the early going. We do think company guidance for 2019 earnings expectations will have an impact on our outlook for 2019, so we want to keep our eye on that, as well as macroeconomic factors and price momentum in the markets. Our advice is to hold through, not in a mindless way, but because the weight of the evidence is still positive overall. This outlook could change with new information, but that's how we see it for now.

Thank you for your trust in letting us invest for and with you.