Recent Market Volatility

November 20, 2018

Market Update

World equity markets have dropped since late September, as investors are getting more nervous over trade disputes with China, continued interest rate hikes and concern that economic growth, while currently strong, may begin to slow. These are all very real concerns, especially considering the duration of the current economic expansion and bull market that we have enjoyed. Investing is especially challenging with so much uncertainty, and many investors have decided to sell equities and wait until there is more clarity on these issues. However, market timing is difficult, and very few investors are successful. We believe that the U.S. economy will continue to expand, and corporate profit growth will remain strong. With the recent market correction, we find that valuations are even more attractive for investors with a reasonable time horizon.

How Did We Get Here?

The trade dispute with China has lasted longer than most investors envisioned. Investors have also become accustomed to the Federal Reserve holding off interest rate hikes when financial markets become unstable, in effect supporting equity markets. However, that has not been the case recently. The Fed continues to signal that they will raise interest rates despite the trade war and concerns over slowing growth. The Fed continues to signal that they will raise interest rates despite the trade war and concerns over economic growth slowing. While most countries continue to ease monetarily, the U.S. is tightening, causing the U.S. dollar to strengthen, putting pressure on corporate earnings. Finally, we are seeing an economic slowdown in other countries as both Germany and Japan reported economic contraction in the most recent quarter, and growth in China is slowing.

What to Expect Next

We believe that economic fundamentals in the U.S. will remain much stronger than in other developed markets. While economic growth in the U.S. may downshift somewhat from the current torrid pace, we do not see a recession on the horizon. Similarly, corporate earnings growth will decelerate in 2019, as we anniversary the tax cut, but are still expected to be quite strong.

We believe that if the Fed begins to take a more measured stance regarding interest rate hikes and we get some type of trade resolution with China, markets will cheer this news. Unfortunately, we do not know when or if this will occur, so we remain in this uncertain and volatile market.

Conclusion

It is easy to forget during difficult times in the market such as these that we are in the greatest capitalistic country in the world. We own very profitable companies that are growing and are leaders in their respective industries. These companies pay dividends and/or repurchase their stock providing returns for shareholders and signaling confidence in the outlook for their businesses. It is useful to remember this when you are bombarded by negative press clips. To borrow a phrase from Peter Lynch; now is a good time to just “stay the course” and wait for the current winds to blow over. We look forward to keeping you appraised of world equity markets and our investment thoughts and appreciate the trust you place in us.
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