Crossvault Capital Management, LLC
7373 Broadway, Suite 107
San Antonio, Texas 78209
ph 210-223-6929
fax 210-223-5852

4Q2018

As 2018 drew to a close, the markets were plagued by a Federal Reserve that seemed determined to raise interest rates regardless of the mixed economic data, ongoing trade tensions with China, a government shutdown, and the prospect of a slowing global economy. President Trump has added to the market uncertainty with an administration that seems in turmoil. The end of year resignation of General James Mattis was the most recent example of a well-respected advisor leaving over disagreements with the President. For the year, the S&P closed down -6.2%, the Dow was down -5.6%, and the Nasdaq closed in bear market territory off -3.6%. A precipitous drop in oil prices as well as other commodities added to the concern about slowing global growth. The per barrel price of oil dropped well below $50 to end the year at $45 per barrel. The 10-year Treasury bond was one security whose price did rise while its yield fell to 2.68% at the close of the year.

With the myriad gloomy data in the aforementioned paragraph, it seems as though it might be difficult to find any reason to be positive about the equity markets. However, we would point to the fact that we continue to be at record low unemployment with real wage growth rising for the first time in at least a decade. As a result, the Consumer Confidence Index remains high and this holiday shopping season appears to be the best one in years. In addition, despite the rise in wages, inflation remains subdued with lower prices at the gas pump helping consumers as well as industries that are dependent on energy to produce their goods. We have also had strong corporate earnings results coupled with upbeat forward guidance from those companies.

The housing market has been a concern of late. It slowed markedly in recent months as mortgage rates rose, but the recent decline in the 10-year Treasury may help housing pick up in the next few quarters. It is interesting to note that both housing and car buying may no longer be the important economic indicators they once were. Millennials are less interested in owning assets like homes or cars. They are more interested in spending on experiences like travel and food.

The data and events we will be monitoring for insight into the markets in 2019 include: 1) Any progress made on trade with China 2) The Federal Reserve interest rate commentary and actions 3) Domestic political events 4) Geopolitical events, and 5) Global growth. The U.S. economy, based on core metrics of GDP and unemployment, remains in very good shape as does the banking system, though it is hard to ignore the message of the markets. Currently, there is a large gap between sentiment and fundamentals. Whether this will be a more sustained downturn in the equity markets that is signaling an economic downturn, will remain to be seen. At Crossvault we remain alert to any changes in economic data and interest rates, while we focus on the fundamentals of the domestic and global economies.

From all of us at Crossvault, we are wishing everyone a Happy, Healthy and Prosperous New Year.

Laura Ehrenberg-Chesler
Marilou Moursund, CFA
Sarah Calvert Doerr