LOM OFFSHORE FINANCIAL SERVICES

Monthly Global Market Commentary
January 3, 2019

December Slide Tumbles Markets for the 2018 Year – By Bryan Dooley, CFA

The month of December was once again dominated by troubling economic headlines ranging from disruptive global trade negotiations to disturbing U.S. central bank commentary. On top of the steady drum beat of what some are calling dysfunctional political behavior, the U.S. Government's partial shutdown has added to the negative investor sentiment which has been building all year. Sliding stock prices over the last month of the year added to the fourth quarter market woes, notwithstanding a sharp equity market reversal on the day after Christmas. For the month of December, the S&P 500 declined by -9.03% and the MSCI World Stock index fell by -7.57%. These results capped an overall tumultuous year where the MSCI World declined by 8.19% for the period as a whole.

Since the U.S. and China met during the G20 meeting at the beginning of December, China has implemented multiple policies addressing major issues in trade war negotiations. China agreed to cut tariffs on more than 700 goods in sectors such as agriculture, pharmaceutical, manufacturing and materials. Despite the progress, most products will still be subject to the retaliatory tariffs until there is a breakthrough in the trade deal. Furthermore, China has drafted a law to prevent forced technology transfers, which is a main complaint by Washington. However, critics question whether the new law will be enforced successfully. U.S. trade representatives will travel to China in January for another round of negotiations and any update from their talk will likely affect markets early in the New Year.

Despite the ongoing risk market selloff in during the fourth quarter, the Fed still decided to raise the Fed Fund rate for the fourth time in 2018, to a range between 2.25% and 2.5%. However, the Federal Open Market Committee (FOMC) did adjust next year's projected base rate move downward to just two hikes, in the face of market volatility. However, Fed Chairman, Jerome Powell reiterated the plan for balance sheet runoff. As the Fed downplayed risks to the economic outlook, investors worry that a hawkish central bank will ultimately slow the economy and send markets into another tail spin. As interest rates continues to climb, consumers will feel even more pressure on mortgages and auto loan payments. Overall, businesses have begun to experience a higher interest burden.

With U.S. government debt approaching $22 trillion, Treasury Secretary Steven Mnuchin held a meeting with leaders of the six largest U.S. banks to ensure liquidity. The U.S. Federal Government partially shut down during the last week of the year after President Trump's demand for funding of a Mexican wall was largely opposed by Democrats. The government shutdown further raised concerns about Washington's ability to find solutions to pressing problems.

Fixed Income Markets
The risk off sentiment in December has been driving up demand for safe haven asset including long term U.S. Treasuries. As a result, the 10-year Treasury price rose sharply over Q4, causing yields to drop from over 3% to below 2.8%. As government bonds increased in value, risk premiums across all corporate sectors increased. The high yield sector experienced its worst month since 2011 as investors fled risk. Meanwhile, floating rate notes, which we have been strategically overweighting in the LOM Fixed Income Fund has been benefitting from the continuously rising LIBOR rate.

Equity Markets
All major indices ended the year in negative territory. While the U.S. market outperformed other countries for most of the year, it was one of the worst performers in the last month. Although still in the red, emerging markets outperformed the U.S. by 5.53% in December. After a month of selloff, U.S. stocks rebounded strongly in the last few days of the year, starting on Boxing Day (December 26th) which marked the biggest one-day surge in almost a decade. Resolutions to pressing geopolitical issues remain unclear, but some investors including pension funds saw a buying opportunity and bought the dip before year end.
Looking ahead, we see the potential for better performance in the year ahead. However, ongoing price volatility is likely here to stay given the heighten level of geopolitical uncertainty we still face. In this environment, it is important to stay invested and to stick with a consistent investment discipline.

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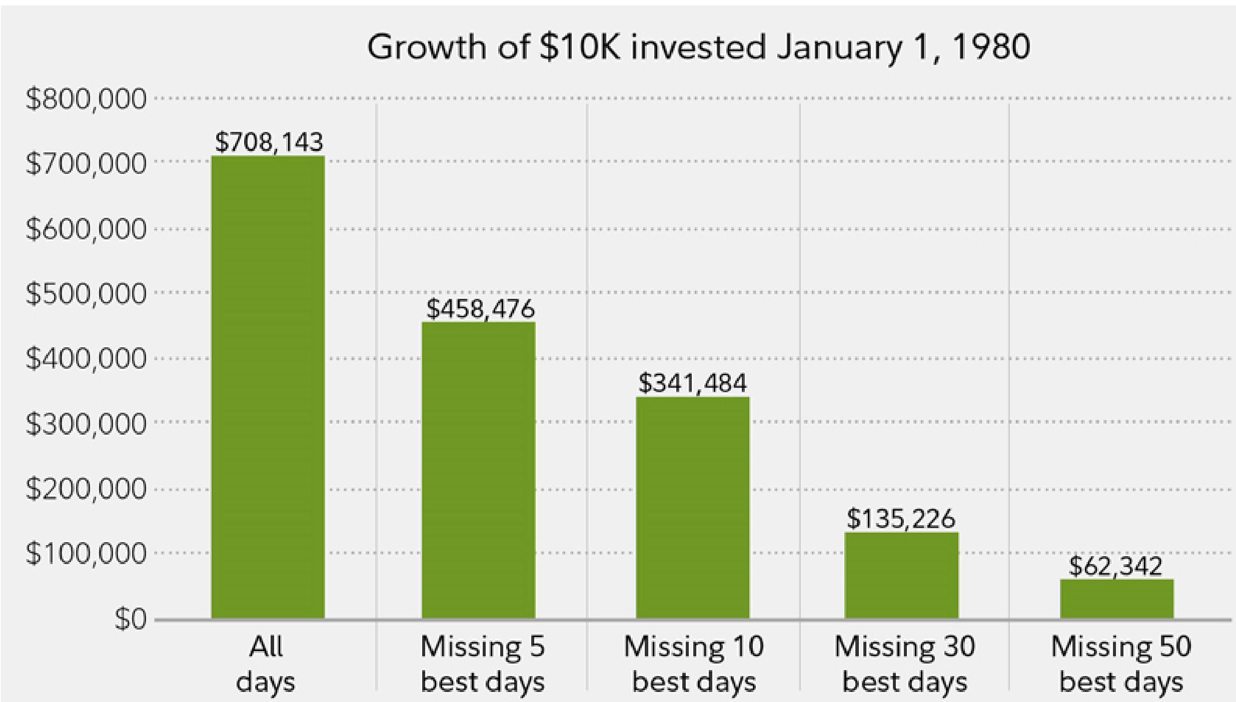
Market corrections can happen at any time and usually come about without warning; and yet market surges can also happen at any time as we saw in the last few days of 2018. While it may be tempting to sit on the sidelines waiting for the smoke to clear, history shows this not be best long-term strategy. For example, over the past twenty years, if an investor in the broad stock market missed the best thirty trading days of each year, their return on the market changes from about 8.2% annually to virtually nothing. The below table shows the data in great detail. These results highlight the importance of staying invested for the long run.

We at LOM are here to answer any questions or concerns you may have regarding your investment portfolio or strategy going forward.

All the best to you and yours for a safe, happy and prosperous New Year!



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Stock Market Performance

	12/31/18	W-o-W	M-o-M	Y-o-Y
DJIA	23,327	7.0%	-8.7%	-5.6%
S&P 500	2,507	6.6%	-9.2%	-6.2%
MSCI World	1,884	4.5%	-7.7%	-10.4%
S&P/TSX	14,323	3.9%	-5.8%	-11.6%
BSX	1,959	1.0%	-17.2%	-11.0%
FTSE100	6,728	0.6%	-3.6%	-12.5%
DAX	10,559	-0.7%	-6.2%	-18.3%
CAC	4,731	2.3%	-5.5%	-11.0%
Nikkei	20,015	-0.8%	-10.5%	-12.1%
Hang Seng	25,846	0.8%	-2.5%	-13.6%
Shanghai	2,494	-1.3%	-3.6%	-24.6%

Key Rates and Prices

Currencies	12/31/18	Month ago	Year ago
EUR	$1.15	$1.13	$1.20
GBP	$1.28	$1.27	$1.35
JPY	¥109.69	¥113.57	¥112.69
CAD	$0.73	$0.75	$0.80
CHF	$1.02	$1.00	$1.03
AUD	$0.70	$0.73	$0.78
Fixed Income			
3M LIBOR	2.81	2.74	1.69
3M Treasury Bill	2.36	2.35	1.38
2Yr Treasury Note	2.49	2.79	1.89
10Yr Treasury Note	2.69	2.99	2.41
Fed Funds Rate	2.50	2.25	1.50
Commodities			
Gold/oz.	1,282.45	1,222.50	1,303.05
Silver/oz.	15.50	14.18	16.94
Copper/lb.	2.71	2.81	3.29
Oil	45.41	50.93	60.42

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