

December 2018 Market Watch

Domestic markets continued to sell off in December. The year started off with a historically strong January (+5.6%) & finished with a historically weak December (-9.2%), with major domestic stock indices finishing 2018 firmly in the red (the first annual decline since 2008). Despite the sell-off, U.S. corporate earnings remain strong & the U.S. unemployment rate remains at the lowest level we have seen in nearly half a century. While year-end price swings can be exaggerated by low volumes & liquidity during the holidays, the volatility we have witnessed over this past quarter is the result of a number of uncertainties that remain including: Federal Reserve rate policy, the pace of global growth, tariff wars with China, the impact of the government shutdown, & the direction of crude oil prices.

While market declines can instill fear, it's important to remember that they are a normal part of the investment process. Since March of 2009 we have experienced 6 corrections (a 10% or greater decline in the market from a recent peak), which averaged a -14.5% decline. During times of volatility, it is important to review your goals & risk tolerance with your advisor. Maintaining a diversified portfolio & an appropriate asset mix can help you avoid short-term irrational behavior that can derail your long-term plans.

	Date	1 Week Ago		1 Month Ago		1 Year Ago		YTD
	12/31/18	12/24/18	%chg	11/30/18	% chg	12/31/17	% chg	Return*
DJIA	23,327.5	21,792.2	7.0%	25,538.5	-8.7%	24,719.2	-5.6%	-5.6%
S&P 500	2,506.9	2,351.1	6.6%	2,760.2	-9.2%	2,673.6	-6.2%	-6.2%
NYSE Comp Index	11,374.4	10,769.8	5.6%	12,457.5	-8.7%	12,808.8	-11.2%	-11.2%
NASDAQ Composite	6,635.3	6,192.9	7.1%	7,330.5	-9.5%	6,903.4	-3.9%	-3.9%
Russell 2000	1,348.6	1,266.9	6.4%	1,533.3	-12.0%	1,535.5	-12.2%	-12.2%
Japan Nikkei 225	20,014.8	20,166.2	-0.8%	22,351.1	-10.5%	22,764.9	-12.1%	-12.1%
MSCI EM (Emerging Markets)	965.7	952.8	1.3%	994.7	-2.9%	1,158.5	-16.6%	-16.6%
MSCI EAFE	1,719.9	1,703.4	1.0%	1,809.6	-5.0%	2,050.8	-16.1%	-16.1%
FTSE 100	6,728.1	6,686.0	0.6%	6,980.2	-3.6%	7,687.8	-12.5%	-12.5%
SSE Comp Index	2,493.9	2,527.0	-1.3%	2,588.2	-3.6%	3,307.2	-24.6%	-24.6%

US Equity Sector Performance

	December	YTD	1 Yr Ret.
Consumer Discretionary	-8.4%	0.8%	0.8%
Consumer Staples	-9.1%	-8.4%	-8.4%
Energy	-12.7%	-18.1%	-18.1%
Financials	-11.3%	-13.0%	-13.0%
Health Care	-8.6%	6.5%	6.5%
Industrials	-10.7%	-13.3%	-13.3%
Information Tech	-8.5%	-0.3%	-0.3%
Materials	-6.9%	-14.7%	-14.7%
Communication Services	-7.3%	-12.5%	-12.5%
Utilities	-4.0%	4.1%	4.1%
Real Estate	-7.4%	-2.1%	-2.1%

US Equity Style Performance

	December	YTD	1 Yr Ret.
Dow Jones Utilities	-3.9%	-1.4%	-1.4%
AMEX DJ TRANS Avg.	-15.2%	-12.3%	-12.3%
Russell 1000 Value	-9.6%	-8.3%	-8.3%
Russell 1000 Growth	-8.6%	-1.5%	-1.5%
Russell 2000 Value	-12.1%	-12.9%	-12.9%
Russell 2000 Growth	-11.7%	-9.3%	-9.3%

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The December sell-off was led by the small-cap focused Russell 2000 (-12.0% MTD) & tech-heavy NASDAQ Composite (-9.5% MTD). The NASDAQ remains the best performing domestic index by far YTD (-3.9% YTD), largely due to the strong relative performance of the technology sector through the first 3 quarters of the year.

All eleven S&P 500 sectors ended the month in negative territory, leaving only three sectors in positive territory for the year (Healthcare +6.5%, Utilities +4.1% & Consumer Discretionary +0.8%). The laggards this month were Energy (-12.7%), Financials (-11.3%), & Industrials (-10.7%).

International markets were also sharply negative throughout the month, led on the way down by Japan's Nikkei 225 (-10.5% MTD) & the MSCI EAFE Index (-5.0% MTD). The MSCI Emerging Markets Index was the best international index in December (-2.9% MTD).

The yield curve flattened in December as Fed rates hikes pushed up the short end of the curve, while fear of a slowing economy put downward pressure on longer-term rates. Bond prices move inversely to bond yields, therefore an increase in bond yields results in a decline in bond prices & vice versa. The yield on the 3-Month U.S. Treasury bill increased nine basis points (bps) to 2.45%, while the yield on the 30-Year U.S. Treasury bond decreased thirty bps to 3.01%.

The Bloomberg Commodity Index finished down -7.1% MTD in December. Crude oil closed the month at \$45.41/barrel (-10.8% MTD), while gold settled at \$1,281.30/ounce (+4.5% MTD).

Bond Markets (%)

	12/31/18	1 Mth Ago	1 Yr Ago
US Benchmark Bond – 3 Mth	2.45	2.36	1.39
US Benchmark Bond – 6 Mth	2.48	2.52	1.52
US Benchmark Bond – 2 Yr	2.50	2.82	1.88
US Benchmark Bond – 5 Yr	2.51	2.85	2.21
US Benchmark Bond – 10 Yr	2.68	3.01	2.43
US Benchmark Bond – 30 Yr	3.01	3.31	2.76

US Bond Sector Performance

	December	YTD	1 Yr Ret.
Bloomberg Barclays U.S. Aggregate Govt. Intrm.	1.49%	0.06%	1.43%

Exchange Rates (per US dollar)

	12/31/18	1 Mth Ago	1 Yr Ago
Canadian Dollar	1.366	1.329	1.253
Mexican New Peso	19.694	20.346	19.566
Euro	0.875	0.883	0.833
British Pound	0.785	0.784	0.739
Swiss Franc	0.986	0.999	0.975
Chinese Yuan	6.866	6.944	6.512
Indian Rupee	69.815	69.695	63.828
Japanese Yen	109.715	113.550	112.650

Commodities (In US dollars)

	12/31/18	1 Mth Ago	1 Yr Ago
Gold	1,281.30	1,226.00	1,309.30
Crude Oil	45.41	50.93	60.42
US Dollar Index	95.74	97.20	91.83
Bloomberg Commodity Index	76.72	82.56	88.17

Interest Rates (%)

	12/31/18	1 Mth Ago	1 Yr Ago
Prime Rate	5.50	5.25	4.50
Federal Funds Rate	2.41	2.18	1.43
Libor Rate 30 Day	2.50	2.35	1.56
Libor Rate 3 Months	2.81	2.74	1.69
30yr Fixed Mortgage	4.55	4.81	3.99

Economic Sentiment

	12/31/18	1 Yr Ago
Unemployment Rate	3.70%	4.10%
Average Single Family Home	297,700	288,800
Capacity Utilization	78.50%	77.32%

*Performance for world indices represents price returns (excluding dividends) for the DJIA, S&P 500, NASDAQ, Russell 2000, MSCI EM, MSCI EAFE, NYSE, SSE, and Nikkei, due to data availability.

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