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The Pierson Russi Group at Morgan Stanley

Presents:

Monthly Market View Point: January 2019

A summary of our view of the Market at this moment

As per Standard & Poor's, the S&P 500 Total Return through December 31, 2018 was down 4.4%.
For the month of December, the S&P 500 was down 9%.
Source: Standard & Poor's: Published as of January 2, 2019

As per Morgan Stanley Research, the Barclays Aggregate Bond Index Total Return through December 31, 2018 was 0%.
For the month of December, the Barclays Aggregate Bond Index was up 1.8%.
Source: Morgan Stanley's Capital Market Indices: Published as of January 2, 2019

As per MSCI EAFE, the MSCI EAFE Index Total Return through December 31, 2018 was down 13.3%.
For the month of December, the MSCI EAFE Index Total Return was down 4.8%.
Source: Morgan Stanley's Month End Asset Return: Published as of January 2, 2019

Morgan Stanley's Year-End 2019 target for the S&P 500 index is 2,750.
Source: GIC Weekly: Published as of December 17, 2018

Our economic concerns are:

1. Federal Reserve Policy
2. U.S. Dollar
3. Brent Crude Oil

The top three economic indicators we are watching most closely are:

1. Non-Farm Payrolls
2. Wage Growth
3. U.S. Dollar

Our approach to navigating this environment is:

** All references to "we" and "our" reflect the opinions of either Carl Pierson or Christopher Russi of The Pierson Russi Group.*

Glad that's over.

December's brutal performance made it easy to see why we just wanted the year to end. Although the S&P 500 was coming off a year which generated year-over-year earnings growth of over 25% and was up over 10% near the end of September (*Standard & Poor's*), fears of tariff backlash, rising rates, slowing China and the government shut-down eliminated all gains and gave us one of the worst 4th quarters since the Great Depression (Morgan Stanley, *The GIC Weekly* January 7, 2019).

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Despite 2018's reversal, we look to 2019 and still see many opportunities. First, markets are now well below normal historic valuations. Historically, the market tends to trade around a P/E valuation of around 16. Readings above 16 tend to be overvalued and below, undervalued. Current valuations show the market at the 14 P/E range, signaling an undervalued market and may be a good time to add to stocks. Also, recent statements from the Fed illustrate their caution not to damage the U.S. Economy with higher rates. Their recognition of the slowing US economy and the care necessary to navigate the "soft landing" to the economy's once "high-flying" growth should provide confidence to investors. Globally, we are seeing a bottoming in International and Emerging Markets. Should we see the rebound expected, International revenues could be a help to US earnings.

Given all these moving parts how should investors be positioned in 2019? We suggest a Global Asset Allocation strategy similar to our own. A Global Asset Allocation strategy will use all three macro investment tools: stocks (US and International), bonds and cash. This strategy has not been our friend since post 2007/2008 while various artificial stimuli were used to dig the U.S. economy out of its hole. Even still in 2018, cash was the better performing asset class above stocks and bonds, bonds provided no shelter to stocks demise. We see this trend changing in 2019. The current reduction of the U.S. balance sheet by the Fed and the elimination of fiscal stimulus should show the value of a diversified portfolio once again.

For more information about our investment philosophy and approach to investing, please visit us at our website: http://www.morganstanleyfa.com/piersonrussigroup.

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