

## Skepticism Abounds

December 4, 2018

US equity markets fell over 3% today amid concerns that the Fed may have already gone too far in tightening monetary policy and growing doubts that the Buenos Aires agreement over the weekend between President Trump and Chinese leader Xi Jinping is nothing more than a three month kick of the can down the road.

Markets first became alarmed this morning when the two to five year portion of the Treasury yield curve actually inverted meaning the yield on the two year maturity is currently higher than that of the five year. While markets tend to look more closely at the 2 year vs. the 10 year which is still positive, this spread has declined to 12 basis points bringing the curve to its flattest level since 2007. Inverted yield curves tend to be rather reliable indicators of impending recessions as the longer maturity bond market begins to predict the Fed has ultimately increased rates too much. There are admittedly extenuating circumstances in the current environment with the Fed themselves being large holders of longer term securities, but it is dangerous to totally ignore this important leading indicator. The markets may be testing the new chairman, Jerome Powell, by delivering a message that the Fed may want to end this tightening program sooner and at lower levels of the Fed Funds rate than they originally envisioned.

The temporary trade truce supposedly agreed between the US and Chinese leaders has been rather short on details and has yet to be fully corroborated by the Chinese. Additionally, the naming by President Trump of US Trade Representative Lighthizer as the lead negotiator basically confirmed Trump's inherently hawkish stance towards the Chinese on trade matters. If anyone was hoping for a softening in the position, the President dashed that notion with an early afternoon tweet reminding the Chinese that if they are not serious about announcing major reforms to their trade policies, "I am a tariff man".

Further contributing to market angst are continued concerns about a global growth slowdown and persistent weakness in oil prices. An announcement early this morning that Cirrus Logic is taking down their future revenue guidance due to weakness in the smartphone market was a reminder that revenues and earnings have passed their peak growth levels with the magnitude of the decline in the growth rate somewhat uncertain. Finally, as in a number of these extremely sharp down days we have experienced over the past few months, systematic traders have been assigned some of the blame for the magnitude of today's decline.

While there is no doubt risks have increased and the markets have become more volatile compared to the extremely sedate environment of 2017, the US economy never goes into recession with the current high levels of job and wage growth. We would be looking for tangible signs of inventory excesses and greater permanency of a fully inverted yield curve before viewing this recent decline as anything more than another pullback in a continued bull market.

Ben Pace is the Chief Investment Officer and a Partner in the New York office. He leads the firm's Investment Committee and is a member of the Executive Committee. He has more than thirty years of experience in investment management. Ben has been featured in the Wall Street Journal and Reuters, and is a frequent commentator on Bloomberg TV and radio, Fox TV and CNBC, appearing regularly on network programs such as Power Lunch, The Closing Bell, Squawk Box, and Worldwide.



### Disclosures:

Cerity Partners LLC ("Cerity Partners") is an SEC registered investment adviser with offices in New York, Illinois, Ohio, Michigan and California. This commentary is limited to general information about Cerity Partners' financial market outlook. Cerity Partners' services may not be suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this brochure will come to pass. Investing in the financial markets involves risk, including the risk of loss of the principal amount invested; and may not be appropriate for everyone. Before making any decision or taking any action that may affect your finances or investment goals, you should consult a qualified professional adviser. The information presented is subject to change without notice and should not be considered as an offer to sell or a solicitation of an offer to buy any security. All information is deemed reliable but is not guaranteed. For information pertaining to the registration status of Cerity Partners, please contact us or refer to the Investment Adviser Public Disclosure web site ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)). For additional information about Cerity Partners, including fees and services, send for our disclosure statement as set forth on Form ADV Part 2A using the contact information herein. Please read the disclosure statement carefully before you invest or send money.