Spectrum Coffee House Summary

SPECTRUM INVESTMENT ADVISORS

Speaker: Emily Roland, CIMA John Hancock Investments

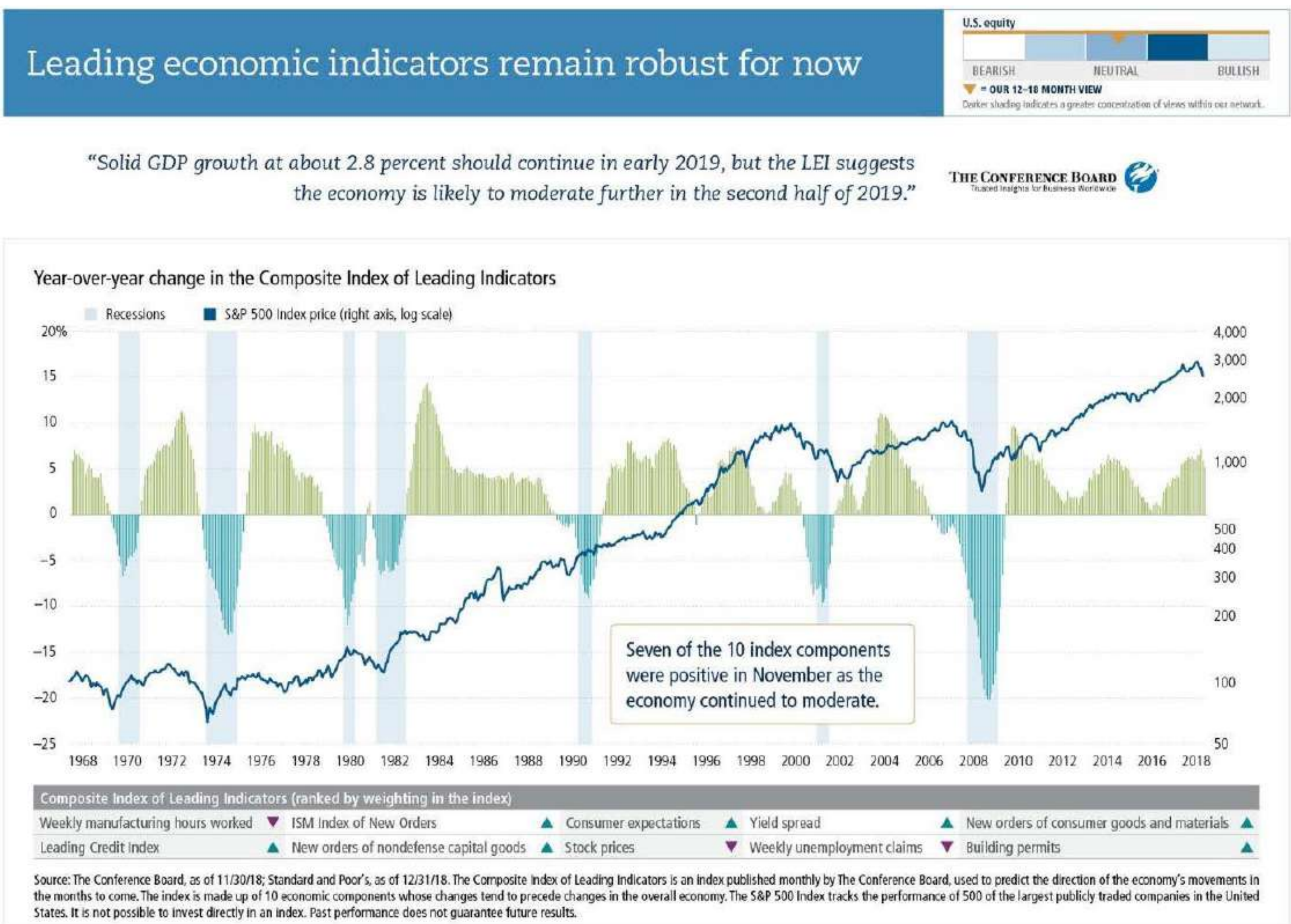
Global Markets Outlook January 2019

James F. Marshall President | **Jonathan J. Marshall** CIO | **Katherine Marquez** Investment Analyst

On January 30, 2019, with a wind chill of 50 below, Spectrum hosted our 19th Coffee House Seminar followed by an open house, featuring our new second floor Spectrum Presidents Café. Even though it was colder than Antarctica, we still had over 100 guests attend the open house. A big thank you to all those who braved the cold and wind to attend. Our guest speaker for the Coffee House Seminar was **Emily Roland**, Head of Capital Markets Research at John Hancock Investments for the past 10 years. Emily presented an easy-to-understand global markets outlook. Due to weather conditions and cancellations, we are providing a summary of her presentation with two of our favorite charts from the presentation.

Emily discussed the **Leading Economic Indicators (LEI)** chart shown below, which provides insight into the underlying drivers of the U.S economic activity. The LEI reading turned negative, (turquoise declining bars), prior to each of the past seven economic recessions (shown by the light blue shaded areas). According to Emily, the recent positive readings (green bars) tell us that the U.S. economy continues to grow at a healthy pace and **that a recession is unlikely in the next 12-18 months.**

Emily also explained that the economic momentum abroad slowed down in 2018, and that peak global growth is likely behind us. Emily cited a number of headwinds for the global economy in 2018. First the ongoing slowdown in China was likely made worse by the US-China trade tensions, and filtered through to many Chinese trading partners. For example, the German auto-industry took a hit as China had its first annual decline in auto sales in almost 30 years. Uncertainty surrounding Brexit also continued to be a challenge. The United Kingdom is scheduled to leave the European Union on March 29, 2019, but the terms and circumstances of that separation are still very unclear. Lastly, although the US economy likely grew by more than 3% in 2018, a consequence of that growth was four more rate increases from the Federal Reserve (making a total of nine since 2015), and ultimately a stronger U.S. dollar, which is harmful to many emerging markets. Coincidentally, on January 30, the day of Emily's presentation, the **Federal Reserve made it official**



that it will be patient and data dependent in determining future interest rate changes. A pause or end to the rate hikes could weaken the US dollar, removing some of the headwinds for international stocks.

Emily agrees with our assessment that what happened last year appears to be close to a "non-recessionary bear market". A bear market is a stock market decline of 20% or more. They are typically accompanied by recessions, but sometimes they occur when the economy is still growing, as it is today. The chart below shows the drawdowns in the S&P 500 index since 1950, with recessions shaded. Non-recessionary bear markets have typically been shorter and smaller than the average recessionary bear market. Since 1950, the average bear market loss during a recession is 38.24% with the average time to recover to the prior peak at **4.63** years. In contrast, during non-recessionary bear markets (like we experienced in 4Q18) the average market decline is 27.39%, with the average time to recover to the prior peak at **1.6** years.

In summary, economic data suggests that the U.S. economy remains relatively strong with low risk of a near term recession. Bottom line, don't make any big bets, stay balanced and stay the course.

Mark your calendar for our next Coffee House Seminar on May 8, 2019, featuring former Marine **Sgt. Edgar Harrell**, one of 11 remaining survivors of the sinking of the USS Indianapolis, which delivered key components of the atomic bomb to Tinian Island during World War II, only to be sunk by a Japanese submarine four days after delivering its cargo. Of the 1,196 men aboard, only 317 survived shark attacks, hypothermia, dehydration and salt-water hallucinations. An incredible story. If you can't make the event you can read Edgar's book entitled, *Out of the Depths*, or watch the movie, *USS Indianapolis: Men of Courage*.

Emily Roland, CIMA

Head of Capital Markets Research
John Hancock Investments

Emily leads the investment research function for John Hancock Investments. She and her team are responsible for leveraging capital markets and industry research to help set the firm's product and business strategy.

Emily joined the company's investments division in 2004 and has held roles at GMO and the Boston Stock Exchange.

Emily holds an MBA from Boston College and a BBA in Marketing from James Madison University. She is a Certified Investment Management Analyst designee.

Click here to access the John Hancock Market Intelligence Guide or go to www.spectruminvestor.com and click on Resources and Links

Not all bear markets behave the same

U.S. equity

BEARISH NEUTRAL BULLISH

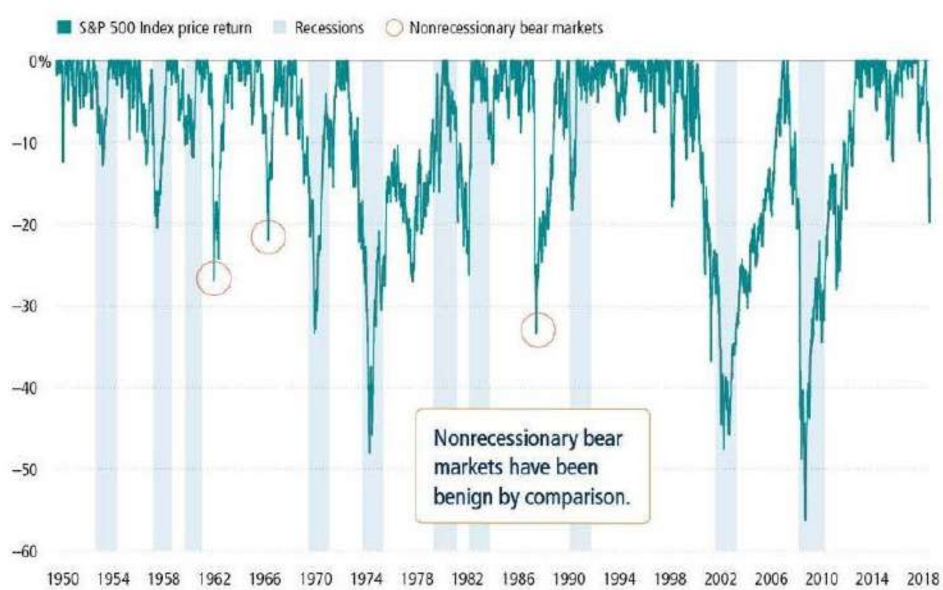
= OUR 12–18 MONTH VIEW

Darker shading indicates a greater concentration of views within our network.

"We believe the decline in stocks witnessed in the last quarter was more akin to the corrections in 1962, 1987, and 1998." STRATEGAS

Bear markets accompanied by recessions have been the most traumatic

S&P 500 Index price drawdowns since 1950



Market declines breaching 20% since 1950

Start	Years*	% decline	Recession?
7/56	2.17	–20.47	Y
12/61	**1.75**	**–26.87**	N
2/66	**1.23**	**–21.97**	N
11/68	3.31	–33.33	Y
1/73	7.58	–47.99	Y
11/80	1.96	–23.79	Y
8/87	**1.94**	**–33.34**	N
3/00	7.23	–47.59	Y
10/07	5.50	–56.24	Y
Recessions	4.63	–38.24	6
Nonrecessions	1.60	–27.39	3

Source: FactSet, as of 12/31/18. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Drawdown is a measure of market declines from a peak to a subsequent trough. Past performance does not guarantee future results. Strategas is an institutional brokerage and advisory firm serving clients in more than twenty countries around the world.
* Represents time to recover to the prior market peak. Strategas and John Hancock are unaffiliated with Spectrum and do not necessarily reflect our views.