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MARKET REVIEW
DECEMBER 2018

RCB BANK Trust

ARE WE IN A BEAR MARKET?

The answer to the question above is "it depends." While that may be the most succinct answer, it is hardly satisfying.

The classic definition of a bear market is when an investment has declined more than 20%. For comparison, a correction is a drop of 10-20%. But, and here's the critical part, the 20% decline needs to be measured from a specific point in time. A stock's price could be down 20% from its price six months ago, but at the same time could be higher compared to 18 months ago. To some investors this hypothetical stock could be in a bear market (for those who invested near the top), while other investors could only be experiencing a minor pullback in a longer term bull market.

To dig a bit deeper, what does the answer to the bear market question depend on? Well, "it depends" on time - the length of the measurement period. This Market Brief reviews the year-to-date (YTD) performance of stocks and compares them with other investments over much longer periods of time to discover which investments may really be in a bear market.

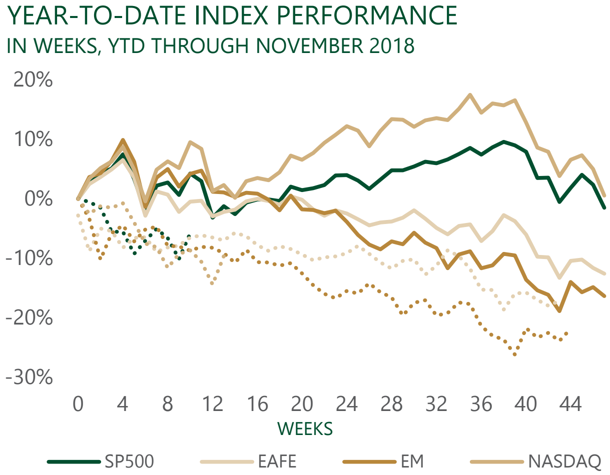
It is possible weakness in a few widely held stocks has convinced investors there is a bear market in stocks (see Table 1).

TABLE 1	52-WEEK HIGH	NOV 30 PRICE	% DECLINE
FACEBOOK (FB)	$ 218	$ 140	35%
NETFLIX (NFLX)	$ 423	$ 286	32%
GENERAL ELECTRIC (GE)	$ 19	$ 8	57%
3M (MMM)	$ 260	$ 208	20%
EXXON (XOM)	$ 90	$ 79	12%

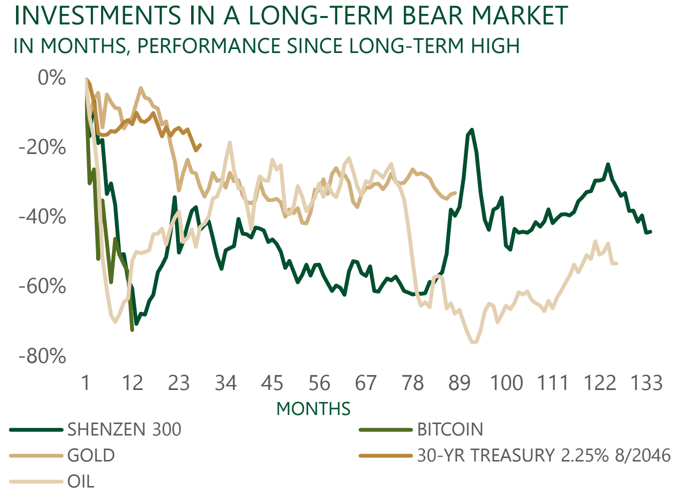
Source: Bloomberg

Reviewing the performance of broadly diversified indexes for both their YTD decline and their decline from peak values this year tells a different story. Measured in weeks, the chart on page three (top left) depicts YTD performance in major indexes with a solid line, while the dotted line shows performance since each respective 2018 peak. The two international indexes (EAFE and EM) have data representing "Declines from Peak" (shown by dotted lines) about as long in weeks as the YTD data (shown by solid lines). This is because both international indexes peaked in late January. However, the domestic indexes "Declines from Peak" (dotted lines), are shorter in number of weeks, indicating their peak was more recent, late September, in fact.

Focusing on performance from both year end 2017 and 2018 high, shows the S&P 500 and Nasdaq are roughly flat through November, but have declined between 5-10% from their highs this year. Alternatively, international indexes are down about 10-15% for the year, but have declined 15-20% since their peak. Of these four, only Emerging Markets fits the classic definition of a bear market – a decline of 20% or more from its highs, though it was down nearly 26% at its low.



The same color dotted line reflects performance since the peak.
Source: Bloomberg



Source: Bloomberg

WHERE IS THE REAL, LONGER TERM BEAR MARKET?

Despite the resiliency through the end of November for most of the broad equity indexes, there are a few notable securities and asset classes in a longer term bear market which demand attention. The chart at the top right shows the decline in percentage terms and the number of months since the long-term peak for those assets that remain in a significant and/or lengthy bear market.

Both the Chinese stock market (Shenzen 300) and oil hit their all-time highs prior to the sub-prime mortgage crisis more than 10 years ago. They still have not recovered those prior highs and are down 40-60%, respectively. Bitcoin has declined about 75% from its all-time highs in less than one year (though whether Bitcoin is a security, form of payment, or something else, is another question entirely). Gold, considered by some as the ultimate safe-haven asset, is still down 30% from its peak which occurred about the time the Federal Reserve ended the bond-buying program known as Quantitative Easing.

Finally, the 30-year U.S. Treasury bond issued in 2016, when interest rates were at the lowest point in the last 10 years, has declined 20%. Not even the coupon income collected makes these bonds profitable since issuance.

CONCLUSION AND INVESTMENT IMPLICATIONS

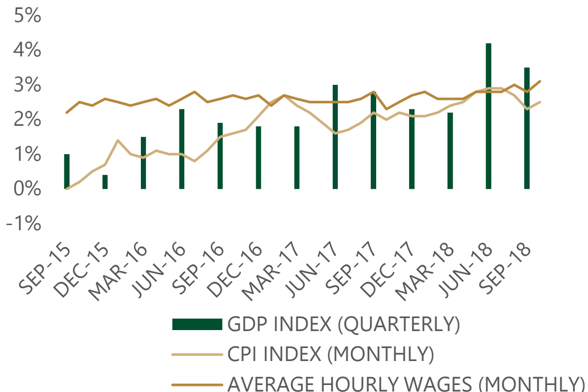
As the year draws to an end, investors wonder how they have fared during the calendar year. Assessments on whether investments are up or down, in a bull or bear market, can often be made with the arbitrary starting point of the beginning of the year, when other assessment periods could provide better comparisons. Of course an investor could make money investing in a stock in a bear market. For example, if they were to purchase a stock at 23% below the peak and then sell it at 15% below, they could earn about 8%.

However, rather than assess investments on the merit of being up or down on cost, either in the history of that security's life or the investor's holding period, successful investing could instead depend on accumulating shares at reduced prices. Often during an equity bear market, mixed portfolios comprised of stocks, bonds, and alternatives can experience a decline in the proportion of stocks to below the bottom of an established range. In these instances, investors have an opportunity to accumulate shares of equity securities at lower cost. For investors who have worked with their advisors and determined the appropriate mix of stocks, bonds, and alternatives that match up with their time horizon, bear markets ought not be feared, but rather viewed as an opportunity to rebalance, accumulate more equity at lower cost, and be better positioned for gains when the eventual next bull market occurs.

ECONOMY

GDP, CONSUMER PRICES AND WAGE INFLATION

SEPTEMBER 2015 THROUGH OCTOBER 2018

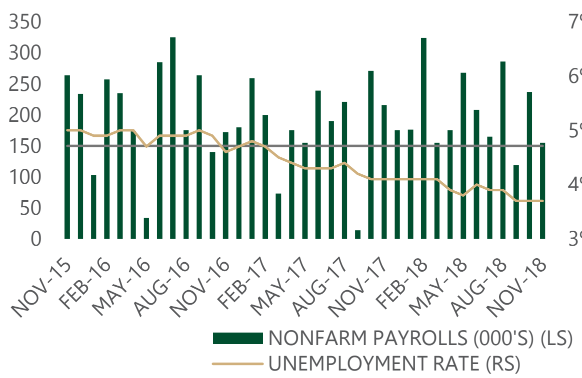


Source: Bloomberg

- The second estimate of annualized third quarter GDP growth was unchanged from its original estimate in October of 3.5%. Growth continues to be driven by tax cuts that have boosted consumer spending and business investment.
- The Core Personal Consumption Expenditure (PCE) price index, the Fed's preferred inflation measure, increased 0.1% in October. The year-over-year reading for Core PCE fell to 1.8%, the lowest reading since February.
- The Core Consumer Price Index (CPI), which excludes volatile food and energy costs, climbed 0.2% in October. The year-over-year reading for Core CPI decelerated to 2.1%, after advancing 2.2% in September.

LABOR MARKET

NOVEMBER 2015 THROUGH NOVEMBER 2018

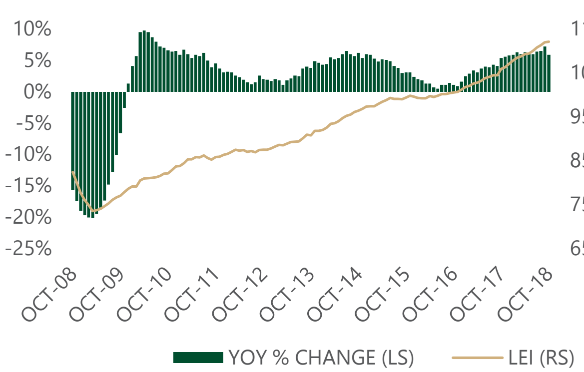


Source: Bloomberg

- Total U.S. nonfarm payroll employment increased by 155,000 in November, slightly under the three-month average of 177,000. October was revised down from 250,000 to 237,000 and September revised up from 118,000 to 119,000.
- The unemployment rate remains near its five-decade low of 3.7%, now unchanged for the third consecutive month. The low jobless rate matched estimates and supports Fed Chairman Jerome Powell's recent comments of a "very strong" U.S. labor market.
- The year-over-year change in average hourly earnings remained at 3.1% in November, tied with October for the largest increase since 2009.

LEADING ECONOMIC INDICATORS

OCTOBER 2008 THROUGH OCTOBER 2018



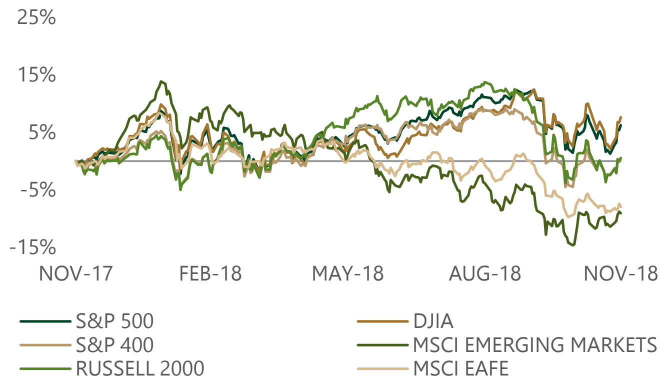
Source: Bloomberg

- The Conference Board LEI Index continued its upward trend but at a slower pace in October with a slight increase of 0.1%, bringing the index to 112.1. This follows an upward revision of 0.6% in September and 0.5% in August.
- October saw the pace of improvement slow on a month-over-month basis for the first time since May, leading to year-over-year growth of 5.9%, down from 7.2% in September.
- Although the rapid growth since the beginning of the year has slowed, the LEI index still shows a strong likelihood for healthy levels of economic activity in the first half of 2019.

EQUITY

TRAILING 12-MONTH EQUITY RETURNS

PRICE APPRECIATION, NOVEMBER 2017 THROUGH NOVEMBER 2018

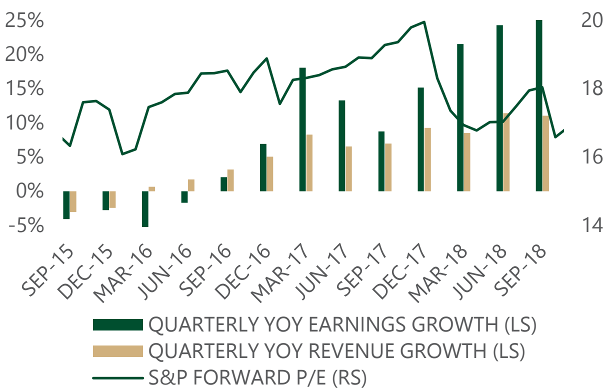


Source: Bloomberg

- Domestic stock indexes rebounded in November after experiencing steep declines the month before. The S&P 500 index posted a monthly return of 2.0%.
- Stocks advanced early in the month after the mid-term election results came in as expected resulting in reduced political uncertainty. Risk-off sentiment returned mid-month with concerns about U.S. trade disputes and slower global growth weighing on stocks. The S&P 500 fell 5.3% during the second and third weeks of the month. Comments from Federal Reserve Chairman Powell interpreted as a more dovish stance helped the S&P 500 rise 4.9% in the final week of November.
- Foreign stocks also posted positive returns for the month, but still remain in negative territory year-to-date.

S&P 500 YOY EARNINGS & REVENUE GROWTH

BY QUARTER, SEPTEMBER 2015 THROUGH NOVEMBER 2018

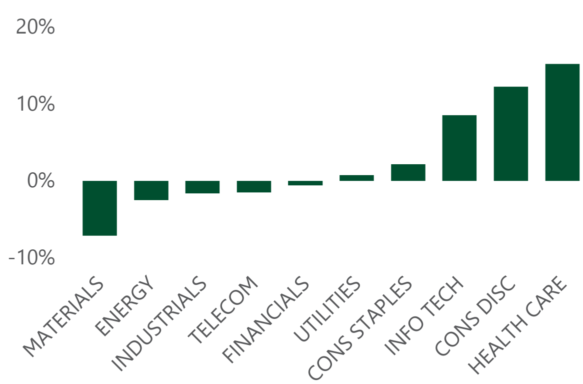


Source: Bloomberg

- Third quarter earnings reporting season is almost complete with results reported from 98% of S&P 500 companies. Earnings are on track for 28.5% year-over-year growth, the strongest pace since 2010. This growth rate is better than analysts' initial estimate of 21% growth.
- This will be the third consecutive quarter of earnings growth above 20%. The S&P 500 has not experienced an earnings growth streak this strong since 2011. Sales growth is also on track to achieve the best streak in multiple years with a second consecutive quarter of 11% growth.
- Analysts are forecasting lower growth in 2019 with full year sales and earnings growth of 5.4% and 8.8%, respectively.

S&P 500 SECTORS 12-MONTH RETURNS (PRICE)

NOVEMBER 2017 THROUGH NOVEMBER 2018



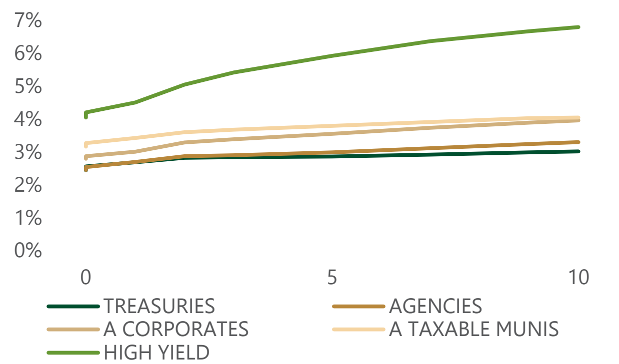
Source: Bloomberg

- Health care led all sectors last month with a gain of 7.1%. Democrats taking control of the House of Representatives in the mid-term election was a large contributor to the sector's strength. The Affordable Care Act and its health care subsidies are less likely to be repealed now that Democrats control one chamber of congress.
- Energy was among the few sectors with a monthly loss, as lower oil prices continue to pressure the sector. The price of U.S. crude oil fell another 22% in November after declining 11% in October.

FIXED INCOME

CURRENT YIELD CURVES

YIELD CURVES AS OF NOVEMBER 2018

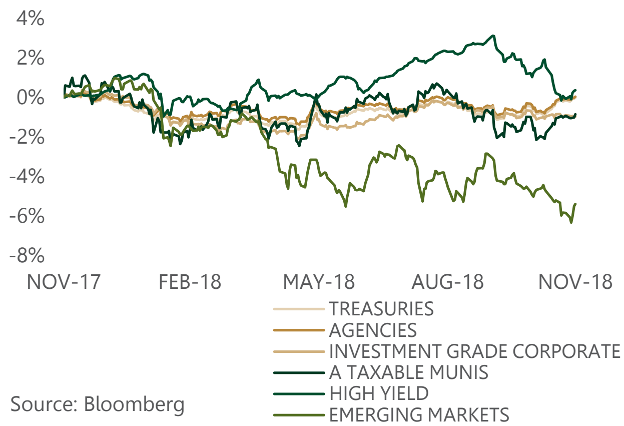


Source: Bloomberg

- The U.S. Treasury yield curve flattened in November, beginning the month with a 2-10 year yield differential of 0.27% and ending the month at 0.20%.
- The curve flattening was driven largely by comments made by Federal Reserve Chairman Jerome Powell near the end of the month. Chairman Powell stated that the current fed funds rate was just below neutral and that the economy had yet to feel the full impact of rate hikes.
- The move lower in the 10-year yield following Powell's remarks may indicate the market believes once the full impact of hikes is felt by the economy real growth could languish, as market-based inflation measures actually spiked higher immediately following the remarks.

12-MONTH RETURNS, TAXABLE BOND SEGMENTS

NOVEMBER 2017 THROUGH NOVEMBER 2018

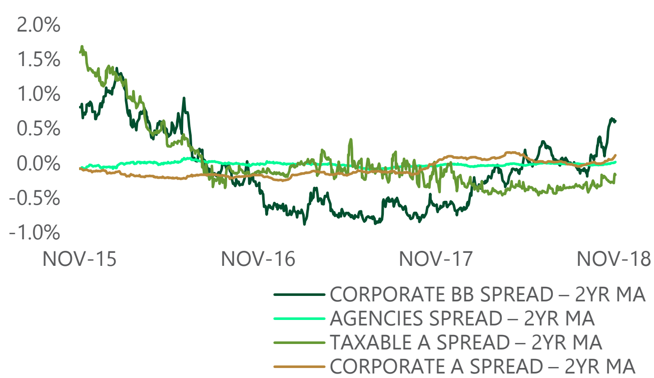


Source: Bloomberg

- High yield bonds continue to lead the taxable fixed income pack with a 0.36% trailing 12-month total return. U.S. Agency bonds' previous 12-month performance turned positive for the first time in 2018 to become the only other taxable fixed income class positive over the last 12 months.
- Emerging market bonds continue to be the worst performing taxable fixed income class by a significant margin as the trade weighted U.S. dollar maintained its strength in November.
- Taxable municipal bonds performed strongly in November relative to intermediate-term investment grade corporate bonds, notching 83 bps of relative outperformance during the month.

SPREAD VS. TREASURY LESS 2-YR MOVING AVG

NOVEMBER 2015 THROUGH NOVEMBER 2018

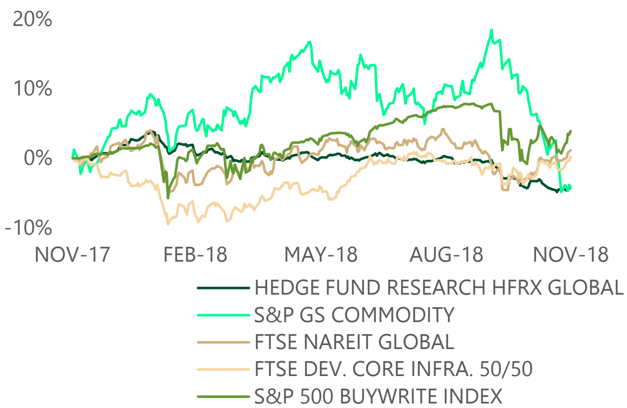


Source: Bloomberg

- After jolting higher in October to around 380 basis points, high yield spreads widened further in November, closing the month at 423 basis points.
- Investment grade corporate spreads followed up a month of modest spread widening with a significant break higher in November, especially in BBB-rated names. The widening coincided with a sell-off in equities that persisted through most of the month as trade war concerns and other headlines drove investors towards safer assets.
- Agency spreads remained in-line with historical levels, but they appeared to be starting to edge higher as of the end of November, a development worth watching in the coming months.

ALTERNATIVES

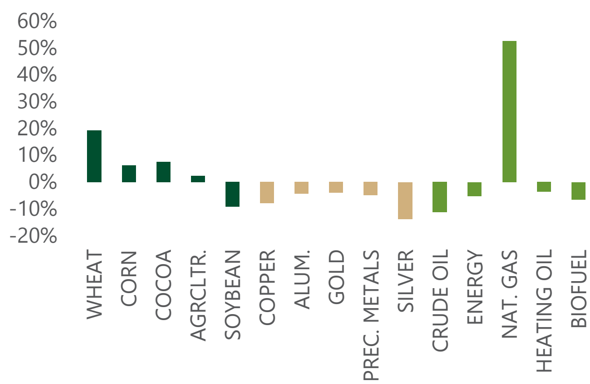
ALTERNATIVES, 12-MONTH RETURNS
NOVEMBER 2017 THROUGH NOVEMBER 2018



Source: Bloomberg

- The trade-weighted commodity index plummeted 10.9% in November following a 6.2% decline in October.
- While the other four alternative asset classes tracked in the chart at left have proven reasonably resilient over the last two months, the steep decline in crude oil prices from over $76 per barrel in the first week of October to near $50 per barrel by the end of November has punished the broad commodities asset class.
- The CBOE S&P 500 BuyWrite (BXM) Index provided approximately 1.6% of downside protection relative to the 4.9% decline of the S&P 500 Index over October and November.

COMMODITIES, 12-MONTH SPOT RETURNS
NOVEMBER 2017 THROUGH NOVEMBER 2018



Source: Bloomberg

- Natural gas prices surged 41% in November from $3.26 to $4.61 per million Btus to reach their highest levels since early 2014. Low inventories and sustained demand amid a colder-than-average start to winter across most of the U.S. have pushed prices rapidly higher.
- Market commentators have predicted that the sharp increase in heating gas prices will result in higher utility bills for U.S. consumers in the months ahead. This could significantly offset any decline in gasoline prices at the pump driven by the steep declines in crude oil prices.
- In early November, several key oil importing U.S. allies received temporary waivers on Iranian oil import sanctions.

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