RADIUS
CAPITAL MANAGEMENT LLC

2018: Market Commentary:

After an exceptionally strong 2017 where investors across most asset classes had robust returns, 2018 resulted in sharp declines and nowhere for investors to hide. Ongoing trade tensions (most noticeably between China and the US), international economic concerns around Brexit and global GDP growth, a growing U.S. deficit, and rising interest rates all put downward pressure on global stock and bond markets and saw investors fleeing to the relative safety of cash and US Treasuries.

Stock market volatility spiked, most notably in February and again in December, with the CBOE Volatility Index (VIX) rising to levels not seen since early 2009. The S&P 500 narrowly missed entering a technical 'bear market' (defined as a decline of over 20%) with a peak-to-trough drop of 19.8% before recovering by 7% to end the year down 5%. Small and Mid-Cap stocks were pummeled in the last four months of the year as investors fled to safety – with Mid-Cap and Small Cap Indices experiencing peak-to-trough declines of 23% and 26% respectively on their way to posting full-year losses of more than 9%. International stocks fared even worse in 2018, with the benchmark MSCI World ex-US index down over 16% in 2018.

On a sector basis, technology stocks fell over 24% peak to trough as investors dumped the previous market "darlings" after poor revenue forecasts, concerns over trade wars with China, and rising interest rates sent fund managers into safe haven assets. Fears of a global growth slowdown weighed on cyclical sectors such as industrials, energy and materials, and a flattening yield curve and political uncertainty negatively impacted U.S. financials. Defensive sectors such as health care and utilities were the only gainers in 2018.

We have seen tentative gains since the lows of December 2018, with the S&P 500 up 4% through 1/15/2018. Growth stocks are out-performing Value, and Mid-Cap and Small Cap stocks have posted stronger YTD gains (5% and 7% respectively) than Large Cap stocks. Despite this recent upswing, trading volumes have been lower than average indicating investors remain cautious.

2019: Looking forward:

Current US economic data and company earnings are robust and support strong stock market performance going forward – however international growth concerns, trade-policy risk and tightening monetary policies cannot be ignored. Most economists predict a recession in late 2019 or 2020. We expected volatility to remain inflated in the market as US-China trade relations remain strained and the Fed continues to increase interest rates.