OCTOBER RECAP

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October was a tough month for the stock market as the S&P 500 declined by-6.9%, the worst month since September 2011. The decline ended the six-month winning streak and brought the year-to-date return down to +3.0%. There was no single factor that caused the market to decline. Trade issues, the Italian budget, rising interest rates, earnings disappointments, and potentially slower economic growth were all cited as reasons for the decline. Global equity markets fared worse than the US. Developed International (MSCI EAFE) markets declined by-8.0% and Emerging Markets (MSCI EM) dropped by-8.7%. Within Fixed Income markets, bonds performed relatively better than stocks, but they still posted negative returns as the Barclays US Aggregate Bond Index declined by-0.8%.

Our goal with this update is to provide a quick recap of what occurred in the markets over the last month. Our thoughts on bear markets, the recent market weakness, and increased volatility. See our "Question of the Month" for more insight.

United States Equity Markets					
Index	October	YTD	1-Year	3-Year	5-Year
S&P 500	-6.84%	3.01%	7.35%	11.47%	11.30%
Dow Jones Industrial Average	-4.98%	3.41%	9.87%	15.18%	12.72%
Nasdaq Composite	-9.20%	5.83%	8.59%	13.02%	13.22%
S&P 400	-9.55%	-2.77%	1.02%	9.81%	8.86%
Russell 2000	-10.86%	-0.60%	1.85%	10.63%	7.98%

International Equity Markets					
Index	October	YTD	1-Year	3-Year	5-Year
MSCI EAFE	-7.95%	-8.86%	-6.39%	4.11%	2.49%
MSCI Europe	-7.62%	-9.37%	-7.76%	3.12%	1.79%
MSCI Japan	-8.45%	-6.72%	-3.24%	5.78%	5.21%
MSCI Emerging Markets	-8.70%	-15.45%	-12.19%	6.89%	1.14%

Fixed Income					
Index	October	YTD	1-Year	3-Year	5-Year
Barclays US Aggregate Bond Index	-0.79%	-2.38%	-2.05%	1.04%	1.83%
Barclays US Credit Index	-1.40%	-3.49%	-2.81%	2.33%	2.81%
Barclays High Yield Index	-1.60%	0.93%	0.97%	6.57%	4.67%
Barclays Municipal Bond Index	-0.62%	-1.01%	-0.51%	1.89%	3.24%

Commodities					
Index	October	YTD	1-Year	3-Year	5-Year
Oil	-10.84%	8.09%	20.10%	40.18%	-32.24%
Gold	1.75%	-7.20%	-4.32%	6.20%	-8.41%
Silver	0.24%	-14.97%	-14.74%	-8.25%	-35.41%
Copper	-4.43%	-18.78%	-13.86%	15.13%	-19.15%

We'd like to highlight three key events of October 2018:

Market Volatility

Volatility returned during October as the S&P 500 experienced 10 daily moves of +/- 1%. To put this data in context, the S&P had only 8 daily moves of +/- 1% in all of 2017 and zero in the third quarter of 2018. One of our key themes of 2018 is that we expect volatility to elevate after being dormant for most of last year. Keep in mind that even though stocks average a 7–8% annual gain, there tend to be about three pullbacks and at least one correction of 10% or more each year (data back to 1950). For more on market volatility, please refer to our letter from earlier in the month.

FOMC Minutes

The Fed released the minutes from their September 25-26th meeting on October 17th. Recall that at the September meeting, the Federal Open Market Committee raised the federal funds rate range by 25bps to 2.00 – 2.25%, this was the 8th rate hike since the financial crisis and the 3rd in 2018. Investors narrowed their focus to one line from the minutes that stated the FOMC would be willing raise interest rates into "restrictive" territory. The interpretation was that the Fed could raise interest rates more often than previously anticipated. The Fed previously signaled for one more rate hike in 2018 and three more in 2019. The Fed has been sending the market mixed signals about the pace of interest rate hikes recently, and we will see if the next few months provide any clarity.

Italian Budget

The Italian Budget news story stayed in the headlines all month. The new Italian Government submitted their budget plan to the European Commission, which called for deficits of -2.4%, -2.1%, and -1.8% from 2019-2021. Italy is already dealing with high debt levels as the public debt to GDP ratio is greater than 130%. The European Commission rejected Italy's budget proposal due to their high debt/deficit levels and gave the country until November 13th to submit a new plan. Throughout the month Moody's downgraded Italy's debt to one level above junk status, and S&P lowered their outlook to "negative". Investors fear that Italy could leave the Eurozone, which would destabilize the entire region. While that is a long way from occurring, the situation still needs to be monitored.

Client Question

What are the different types of bear markets? How long do bear markets typically last?

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In our latest quarterly recap, we addressed a client question about the age of the current bull market. This month, we will dive a little deeper into a popular topic given the recent market weakness and volatility – a bear market. Bear markets are typically defined as a 20% decline from a previous market high. Bear markets can occur in any asset class or index, but right now we will focus on US large cap stocks (S&P 500).

At Winthrop Wealth Management, we categorize a bear market based on whether or not it was accompanied by a recession. See right for a chart detailing the last ten bear markets in the S&P 500. Going back to 1929, 8-of-10 bear markets were accompanied by a recession.

Given that equity market returns are based on the presumption of future cash flows of the underlying companies, it makes sense that the worst time periods occur when the economy is struggling. Bear market declines in recessionary periods are usually severe.

- Number of Bear Markets accompanied by a recession: 8
- Average peak-to-trough decline:-49%
- Average time it took the market to bottom: 29 months

What about bear markets outside of recessions? Only 2-of-10 bear markets were not accompanied by a recession. These two periods include right before the Cuban Missile Crisis of 1962 and the Market Crash of 1987.

- Number of Bear Markets without a recession: 2
- Average peak-to-trough decline:-31%
- Average time it took the market to bottom: 5 months

S&P 500 BEAR MARKETS

Accompanied by a Recession			
Bear Market	**Market Peak**	**Peak-to-Trough Decline**	**Duration (Months)**
Great Depression (1)	September 1929	-86%	32
1937 Fed Tightening	March 1937	-60%	61
Post WWII Crash	May 1946	-30%	36
Tech Crash of 1970	November 1968	-36%	17
Stagflation	January 1973	-48%	20
Volcker Tightening	November 1980	-27%	20
Tech Bubble	March 2000	-49%	30
Global Financial Crisis	October 2007	-57%	17
Average		**-49%**	**29**

No Recession			
Bear Market	**Market Peak**	**Peak-to-Trough Decline**	**Duration (Months)**
Cuban Missile Crisis	December 1961	-28%	6
1987 Crash	August 1987	-34%	3
Average		**-31%**	**5**

(1)Great Depression: the S&P 500 peaked in September 1929, over the next 32 months the market declined by -86% before reaching a bottom in June 1932.
Chart Source: JP Morgan

Historically, bear markets that were not accompanied by a recession were milder and quicker. We will not claim that we will be able to precisely predict when the next bear market or recession will start – we do not believe anyone can do this consistently. We can, however, rely on our experience and investment process to analyze data and get a sense of the current environment. Despite the recent volatility, our viewpoint has not changed from our Q3 Market Outlook. We maintain our cautiously optimistic view on the US equity markets and economy, and we do not believe a recession is likely in the near-term.

We understand that volatility can be stressful, and that it is human nature to envision the worst-case scenario- that a market drop could be the start of the next bear market. However, during periods of market volatility, most often the best course of action is to not overreact. Keep in mind, that some clients view bear markets as an opportunity to buy stocks that are on sale. The stock market has historically gone up over time, but the returns are rarely in a straight line. Market volatility is a common occurrence (this is a topic we will cover in the future). As always, we encourage our clients to maintain a long-term viewpoint while remaining focused on their overall goals and objectives.

At Winthrop Wealth Management, financial planning works in concert with investment management. The Financial Plan, which helps clients define cash flow needs and future objectives, drives the investment management strategy. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection.

DISCLOSURES:

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification and asset allocation do not protect against market risk.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid-cap representation across 15 Developed Markets (DM) countries in Europe. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.*

The MSCI Japan Index is designed to measure the performance of the large and mid-cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa, Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Barclays Capital Municipal Bond Index is a broad market performance benchmark for the tax-exempt bond market, the bonds included in this index must have a minimum credit rating of at least Baa.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.