

Video Transcript

Market Perspectives: November 2018

Hello, I'm Matthew Peron, CIO of City National Rochdale, and welcome to this month's Market Perspectives.

Historically, October has a reputation for being one of the worst months for the stock market, and this year has been no different. So, T.S. Eliot will forgive us for calling October the cruelest month in our recent bulletin, borrowing from his classic poem, the wasteland.

Indeed, it was a wasteland of sorts with the large cap index down -6.84% and the small cap index down -10.48% in October, thanks to a wicked brew of tariff talks, rate fears, and geopolitical concerns. The question now is whether this is the beginning of the end for the bull market, or whether it is simply a correction on the way to further gains.

Let's start by putting the recent pullback in context with other corrections. When we look at history, there have been 16 corrections over the last 30 years and only 2 of them went on to be bear markets. And both of those times, the economy was entering recession. See our bulletin for the details.

We have spoken about how the market can handle modest rate increases in the past videos, but how about when profit growth decelerates like we expect to happen next year? Well, as recently 2015, considerable weakness in the energy sector managed to halt overall growth in S&P earnings completely for a year, yet the market was able to look past that and correctly calculated that earnings would grow again.

We think we are in a similar situation now as we were in late 2015. Earnings growth should slow next year as a number of tailwinds begin to turn more into headwinds. Still we think earnings will continue to grow through 2019 and into 2020 at a healthy, albeit slower, rate. If that's the case, we expect the market will find its footing in time and appreciate in line with earnings growth.

The past month hasn't been all bad news. The correction has made equities more attractive from a valuation perspective. As a result, we are moving our valuation speedometer from yellow to green, though our global growth outlook moves from green to yellow.

So, will this equity market continue to be a wasteland, or will it rise from the rubble and deliver holiday cheer? Since we think the economy will not enter a recession, we expect it to reconnect to the broader positive fundamentals, allowing the bull market to resume its gradual climb.

This is Matthew Peron with Market Perspectives, and I look forward to updating you next month.