



Basis Points – December 27, 2018

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Above the Fold

This quarter for the stock market is not only bad but historically terrible as well:

- The Christmas Eve stock market decline of -2.71 percent was almost four times the worst Christmas Eve performance ever, eclipsing 1985's decline of -0.69 percent, which was the previous worst.
- After the recent sharp decline, the stock market is extremely oversold. The number of stocks trading above their 50-day moving average is only 10 percent, the lowest reading since 2011. Fifty percent of stocks are trading at their 52-week low price, the highest in more than 10 years.
- In fourth quarter 2018, the S&P 500 is down -19.3 percent. In the 73 years since World War 2, there have been 294 quarters, and this quarter is now the fifth worst during that long period.
- During those 73 years, the index declined greater than 10 percent in 19 individual quarters. Following 16 of these quarters, or 84 percent of the time, the next quarter showed positive performance. And one-year performance is positive after all these poor performance quarters.
- Fourth quarter 2018 is also the third worst fourth quarter in 73 years, lagging only the Black Monday Crash quarter of 1987 and the 2008 financial crisis.

Three Things

- The consumer is shopping and spending, delivering the strongest holiday sales increase for U.S. retailers in six years. Total U.S. retail holiday sales rose 5.1 percent, and online sales jumped 19.1 percent from last year.
- Due to a rapidly increasing supply of office space in the U.S., next year could be a

challenging time for many landlords. Developers are expected to add 68 million square feet of office space in 2019, the largest addition to U.S. inventory since 2008. The large addition of new supply will pressure rent growth, especially for owners of older office buildings that will have trouble matching the new amenities of newer construction. Office rent growth has been strong since the financial crisis but slowed in 2018 to a 2.1 percent rate.

- Oil prices fell to their lowest levels in over a year last week, continuing a precipitous decline spurred by uncertainty about the pace of global economic growth and growing global supplies, especially from surging production in the Permian Basin. The price of crude oil has fallen to \$43.50, a 43 percent decline from the four-year highs reached on October 3. Investors have grown increasingly worried that slowing global growth will weigh on fuel demand, while major oil exporters have not cut production enough to match consumption. Activity in the junk-bond sector, dominated by energy companies, has also slowed. There have been no high-yield bonds issued in the U.S. in December, which would mark the first month without an energy industry high-yield issuance since November 2008.

Did You Know

In 1924, Calvin Coolidge Jr., the teenage son of the 30th president, developed a blister on his toe after playing tennis on the White House lawn. The blister developed into a staph infection, and a week later he was dead. In the days before the invention of penicillin, even the most powerful family in the world was not immune to the lethal effects of what these days are considered to be minor afflictions. Penicillin was not invented until 1928 and took fully 20 years to become widely adopted and available, but the discovery of penicillin was ranked as the most important discovery of the millennium in 2000. Penicillin became the most effective life-saving drug in the world, conquering such dreaded diseases as tuberculosis, gangrene, pneumonia, diphtheria and scarlet fever. It is estimated that penicillin has saved at least 200 million lives since its first use as a medicine in 1942.

Over the last 100 years, human life expectancy has increased dramatically, from 50 years to more than 80 years. With that major change, however, has come an equally large change in the causes of death. It may seem as if death from heart disease or cancers have increased dramatically over the past decades, and that is true. Deaths due to cancer have increased from 18 percent of all deaths a century ago to 45 percent now, and death due to heart disease has increased from 40 percent to 46 percent. However, looking at all deaths, the “market share” of death by heart disease and cancer has grown and taken the place of formerly deadly diseases such as influenza and pneumonia that were large causes of death prior to 1900. In fact, in 1900, 40 percent of all deaths were due to these now mostly treatable diseases, but that number has since decreased to only 4 percent.

Seeing as no one here gets out alive, something kills us all eventually. As humans live longer and longer lives, expect the rates of death from cancer and heart disease to continue to increase, as well as deaths related to dementia and Alzheimer's disease.