Bear Beginning		Bear Ending		Calendar	%Loss	Return After Falling -20%		
Date	S&P 500	Date	S&P 500	Days		+90 days	+1 year	+3 years
5/29/1946	19	5/17/1947	14	353	-28.8%	2.1%	-0.8%	2.7%
6/15/1948	17	6/13/1949	14	363	-20.6%	14.5%	42.1%	79.4%
4/6/1956	49	10/22/1957	39	564	-20.2%	6.1%	31.0%	36.8%
12/13/1961	73	6/26/1962	52	195	-27.9%	7.3%	26.1%	58.3%
2/9/1966	94	10/7/1966	73	240	-22.2%	8.3%	24.6%	27.3%
12/3/1968	108	5/26/1970	69	539	-35.9%	-4.5%	11.9%	35.4%
1/11/1973	120	12/6/1974	65	694	-45.9%	-0.7%	-26.9%	7.8%
9/21/1976	108	2/28/1978	87	525	-19.3%	11.3%	10.6%	50.8%
4/27/1981	135	8/12/1982	102	472	-24.4%	2.6%	40.9%	67.2%
8/25/1987	337	10/19/1987	225	55	-33.2%	12.0%	24.3%	36.0%
7/16/1990	369	10/11/1990	295	87	-19.9%	5.4%	29.1%	56.0%
7/17/1998	1,187	8/31/1998	957	45	-19.3%	21.6%	37.9%	17.9%
1/14/2000	1,465	10/9/2002	777	999	-47.0%	7.6%	-1.2%	-5.3%
10/9/2007	1,565	3/9/2009	677	517	-56.8%	-20.0%	-29.1%	6.0%
4/29/2011	1,364	10/3/2011	1,099	157	-19.4%	16.2%	31.5%	77.0%
9/20/2018	2,931	12/26/2018	2,351	97	-19.8%	?	?	?
Mean (No Recession)		7		224	-24.3%	11.2%	22.0%	38.6%
Mean (All)		15		387	-29.4%	6.0%	16.8%	36.9%
Mean (Recessions)		8		529	-33.8%	1.4%	12.2%	35.4%

Chart of the Week: The S&P 500 declined 19.8% from its September 20 peak and came within a whisker of the 20% decline that many define as a bear market. Our analysis looked at whether it typically paid off for investors to buy when stocks were roughly 20% off their high in the post- World War II era. While there doesn't need to be a recession for stocks to decline 20%, most of the worst declines in U.S. stock market history are associated with a recession (shaded) with an average decline of 33.8%. On average, investor returns were positive over the next ninety days, one-year and three-years if one purchased after these roughly 20% declines even if the decline ended up continuing further. The recession-related scenarios were more challenging in the short-run but ended up at a similar three-year positive return. Avalon still believes the risk of recession remains low over the next twelve months although U.S. growth is certainly slowing. With return to a more normal monetary policy along with a slowing global economy and trade disputes, it seems likely that volatility will persist so one should be prepared for the roller coaster ride to continue and perhaps even take us back below the recent low. Armed with these facts though, Avalon believes that investors should consider at least rebalancing back toward their long-term target in stocks as this decline has likely provided an attractive entry point especially if the U.S. avoids recession as we expect.

Source: Bloomberg, NBER, Ned Davis Research, Avalon Advisors, LLC

WEEK IN PREVIEW

Wishing everyone a happy and prosperous New Year in 2019!

- Geopolitical: Most of the world markets will be closed early in the week to celebrate the beginning of 2019. The partial shutdown of the U.S. government continues, but these shutdowns typically do not have a serious negative impact on stocks. The new U.S. Congress begins on January 3. Markets will also be focused on any additional news impacting the trade negotiations between the U.S. and China after some optimistic news on that front over the weekend.
- U.S.: December ISM manufacturing readings are expected to moderate to around 58.0, but still well above the line of demarcation at 50.0 for economic contraction in interpreting PMI readings. The ISM reading should continue to reinforce Avalon's "slowing but growing" view regarding the U.S. and global economy. Some U.S. economic data is delayed due to the partial government shutdown, but the important December employment report is not impacted. Payrolls are expected to grow by 180,000 while the unemployment rate stays steady at 3.7%. The latest 4Q GDP estimates from the Atlanta and NY Fed are 2.71% and 2.48%.
- Fedspeak: Federal Reserve Chairman Powell along with ex-Chairs Bernanke and Yellen speak on Friday. Markets will be particularly listening to Powell for confirmation of a pause in rate hikes to start 2019.
- Europe: Eurozone December consumer inflation (CPI) should slow to 1.8% year-over-year. U.K December manufacturing PMI should moderate to 52.5 while services improves slightly to 50.7.
- Asia: December official manufacturing and non-manufacturing PMI readings were 49.4 and 53.8 versus 50.0 and 53.2 in November as China continues to struggle to keep the economic growth engine going. The Caixin version of the December PMI readings are released this week.
- Central Banks: The central banks of Bulgaria and Dominican Republic meet.

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WEEK IN REVIEW

- Roller coaster ride for the S&P 500 during the Christmas holiday-shortened week but ended up gaining 2.9%. Consumer discretionary, technology and communications services were the leading sectors. Energy stocks were laggards with WTI and Brent oil prices both lower. Small cap stocks outperformed with the Russell 2000 up 3.6%. The 10-year U.S. Treasury yield fell to 2.72% and credit spreads widened slightly.
- Both developed international and emerging market stock indexes were higher but significantly underperformed the S&P 500 on both a hedged and unhedged-currency basis. The U.S. dollar was weaker against both developed and emerging market currencies which increased their non-hedged stock returns.
- The 10-2 yield curve widened and ended at 19.8 basis points. Another curve measure of three-month yield six quarters forward – three-month yield narrowed to 10.5 basis points. The yield curve has historically provided an accurate forecast of future recessions when the difference in these measures turns negative, also known as inversion. Yield curves are one of the major indicators that we monitor to judge recession risk, but these inversions typically happen a year or more in advance of any economic recession. While a future inversion came closer by one of our measures last week, it still hasn't started the countdown clock. In addition, stocks have historically had significant advances post-inversion. Please see our **Avalon Perspectives** publication, *The Yield Curve and Equity Returns*, from April 26, 2018 for more details.

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