CASSADY SCHILLER
Wealth Management

02/06/2018
9:00am

If you've been watching the news the last few days you've no doubt seen that volatility has returned to the markets. Last week, the theme was job growth, rising wages, and the subsequent sentiment that inflation (largely non-existent since the great recession) was making a return to our economy. This, in turn, could lead to more interest rate raises by the Federal Reserve. These rising rates would increase borrowing costs for businesses, increase interest rates on treasuries (effectively hurting the underlying price of bonds) and, ultimately, slow down our economy.

The stock market response to this narrative was a loss in the S&P 500 of 3.17% for the week ending 02/02/2018. This was a small reintroduction of volatility in our markets that has largely been absent since the beginning of 2016. This loss was exacerbated on Monday 02/05/2018 with the S&P 500 losing an additional 4.1% in a single trading day. In percentage terms, not the largest we've ever seen, but a substantial loss nonetheless. In sum, we are 7.76% off our highs from 01/26/2018. Not yet in "correction territory", which is defined by a 10% drop in the market.

Chart depicts S&P 500 Total Return for dates 01/05/2018 - 02/05/2018

Pullbacks in equity markets happen, and we've seen pullbacks larger than this in 2011, 2015, and 2016 (see below). The market often see's consolidation like this on its way to making new highs. All of these pullbacks, including the present one, have been during an overall time of growth in the market with the S&P 500 more than quadrupling from its 2009 lows.

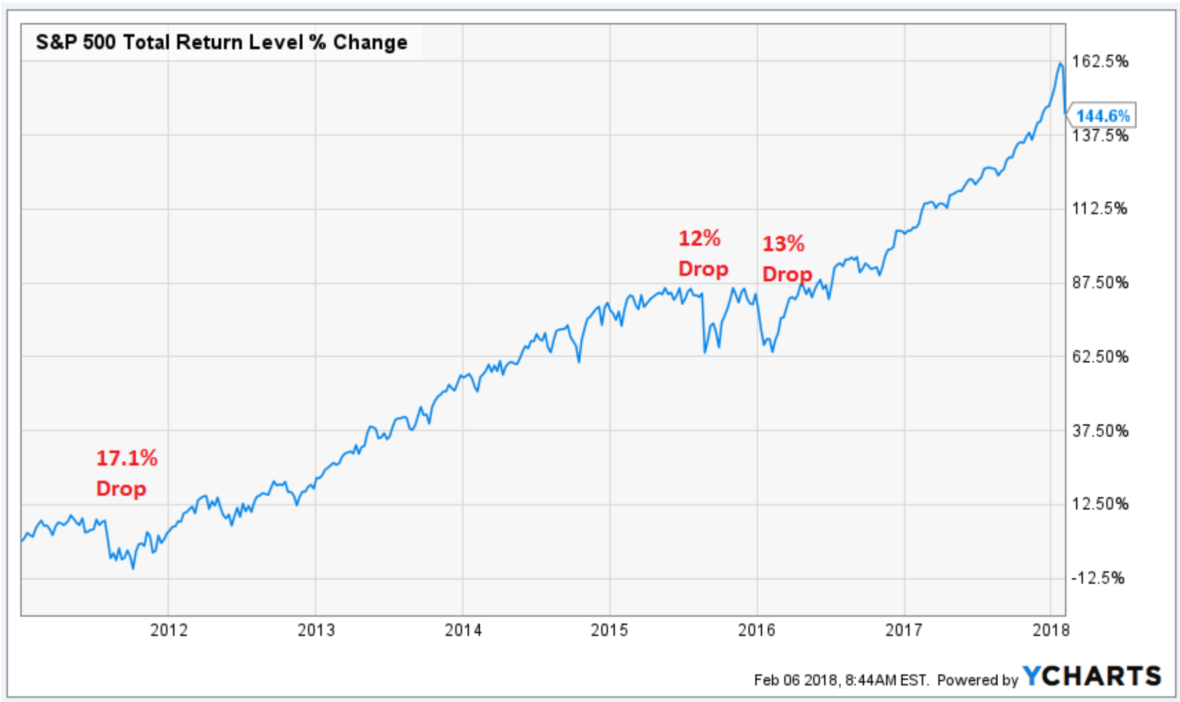
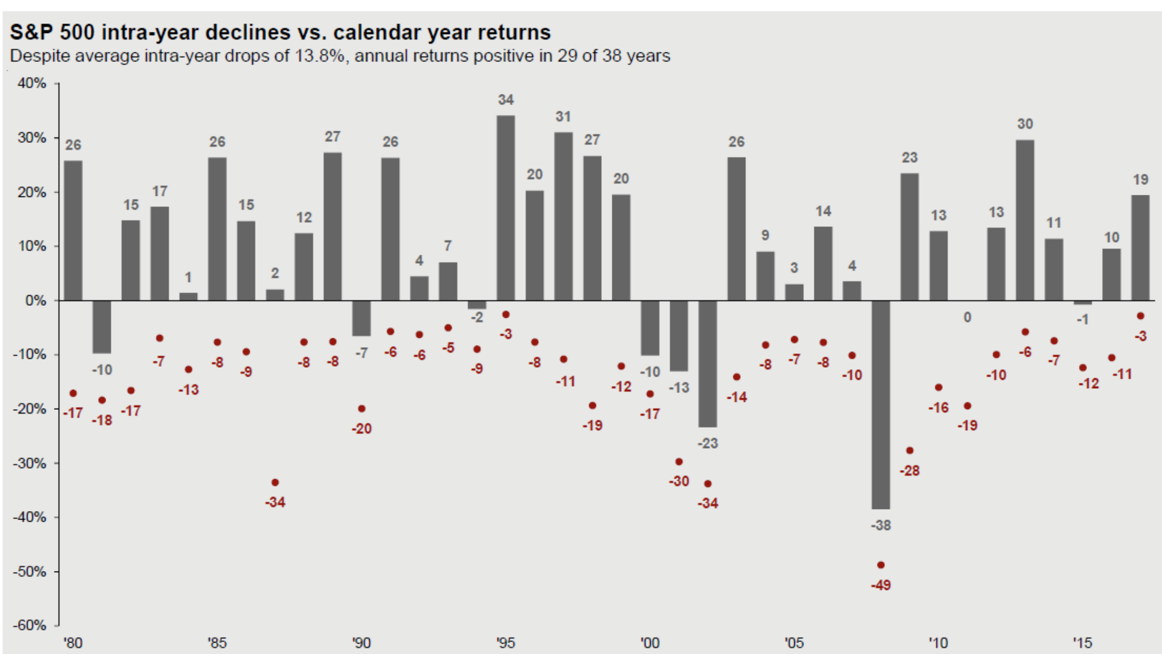


Chart Depicts S&P 500 total return 03/01/2011-02/05/2018

It's important to remember that even though we've grown accustomed to markets that have lacked meaningful volatility for nearly two years, that intra-year declines are normal and often (though not always) still culminate in positive years in the stock market as displayed here:



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2017, over which time period the average annual return was 8.8%.
Guide to the Markets – U.S. Data are as of December 31, 2017.

J.P.Morgan
Asset Management

As a reminder, we invest your portfolio in a manner that is goals based. Your investment plan is tailored in its allocation to meet the growth and volatility needs of your individual plan. With that, while interest rates may see an increase over the short and intermediate term, the pull-back in equity markets on 02/06/2018 displayed for us that bonds still offer stability in portfolios. When push came to shove, investors did flock to the safety of bonds, and the underlying Aggregate Bond Index did show a positive 0.40% return. With equity market volatility rearing itself again, we're reminded that this inverse relationship of returns is still intact and, ultimately, the volatility of fixed income doesn't begin to touch that of the equity markets. For this reason, fixed income continues to play a role in client portfolios to absorb that volatility, provide more consistency of returns, and give us greater risk-adjusted returns.

As always, if you have any questions or concerns prior to our next scheduled review, please reach out to us. We appreciate the trust that you and your family place in our care and we'll continue to guide your financial plan through the markets, whatever may come.