PATHSTONE

MARKET UPDATE

Febraury 9, 2018

Update

- Volatility returned to the markets globally last week with most major equity indices declining more than 5%.
- Losses last week brought month to date returns for the S&P 500 and Dow Jones Industrial Average below -7% and erased strong gains seen in January.
- Despite the swings in the equity markets, bonds markets remained relatively calm. The U.S. 10 Year Treasury Note finished the week yielding 2.83% just 0.01% below the prior week's close. Corporate bond spreads widened modestly and high yield bonds returned -1.4%.

Key Takeaways

- The market declines occurred during a week where there was a lack of significant economic or fundamental headlines, indicating this selloff could have been fear based or a rationalization of elevated prices following strong gains in January.
- Our market dashboards continue to indicate the global economy & credit markets are healthy and the probability of near-term recession is low.
- There has been speculation that the selloff was triggered by fear of inflation after unexpectedly high wage growth was detailed in the previous week's Department of Labor report. While this could have been a factor, stable treasury yields during the week indicate the market has not repriced the risk of inflation (rising inflation is often accompanied by rising interest rates).
- We had previously noted that 2017 marked a historic year of low volatility and the first calendar year since 1926 in which the S&P 500 Index had positive returns in every month. Despite the improving health of the global economy we have been preparing client portfolios for increased volatility and are well positioned.
- Intraday trading was also volatile with market losses or gains typically accelerating in the last few hours of the trading day, indicating that algorithmic trading strategies may have had a role in exacerbating the volatility.

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved.

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U.S. Large Cap Equity is represented by the S&P 500 Index, with dividends reinvested. U.S. Small Cap Equity is represented by the Russell 2000 Index. Developed Non-U.S. Equity is represented by the MSCI EAFE Index. Emerging Market Equity is represented by the MSCI EM Index. Real Estate is represented by the S&P Global Property Index. Commodities are represented by the DJ UBS Commodity Index. Natural Resource Equities are represented by the S&P North American Natural Resources Index. U.S. High Yield Debt is represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Emerging Market Debt is represented by the JPM GMI-EM Global Diversified Index. U.S. Aggregate Bonds is represented by the Bloomberg Barclays U.S. Aggregate Bond Index. U.S. Treasuries is represented by the Bloomberg Barclays U.S. Treasury Index. U.S. Municipal Bonds is represented by the Bloomberg Barclays Municipal 1-10yr Index.

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