Keel Point®

# MARKET COMMENTARY
## Update – February 7, 2018

The media commentary on the recent correction is catching a lot of attention, and we don't want any of our clients and friends to be unsettled by developments and reporting. We don't see the return of market volatility as unexpected or unwelcome; it's just different than what we've had over the past two years. Over the years, intra-year corrections have averaged about 14%, the last week is more returning to normal than new behavior.

Fidelity Investments reminds us that we saw "the S&P 500 Index price rally 59% from its February 2016 low of 1,810 to last week's high of 2,873 without so much as a 5% correction." After being up 5.7% in January 2018, the S&P fell 3.9% last week and another 4% on Monday, February 5, before closing up 1.75% in trading yesterday (February 6).

Should we be concerned about market adjustments like what we've experienced in the last week? No, they are good for market health. This pull-back will be helpful for a positive, more normal result overall for 2018 and beyond.

Underlying economics and market drivers are positive:

- Economic growth estimates are higher, unemployment is declining, wages are rising, confidence is strong and inflation is still low.
- Corporate earnings estimates for Q4 are coming in above expectations and Q1 guidance has been trending higher.
- S&P earnings estimates for 2018 are for greater than 15% annual growth.
- Tax cuts – corporate and personal – provide further support for economic and earnings growth.

So, the problem is too much good news! Synchronous global economic growth is a positive driver of financial markets, and the U.S. tax legislation added a significant fiscal stimulus. We've seen the Federal Reserve patiently raising shorter-term rates, while longer-term U.S. interest rates have recently also started to move higher: the 10-year Treasury is at 2.80% as of February 6 compared to its July 2017 low of 1.32%. Together these metrics explain part of the stock market behavior over the past week.

Investment portfolios appropriately organized for risk and return objectives will start to look more normal as volatility returns to the market place rather than creating an uncertainty as to when a bigger market correction could erupt. If you have questions about your own portfolios or would like additional information, your Keel Point advisor and investment team are available to assist.

Lyle Minton, Chief Investment Officer
Steve Skancke, Chief Investment Strategist

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