

Market Summary – February 26, 2018

For the week ending February 23

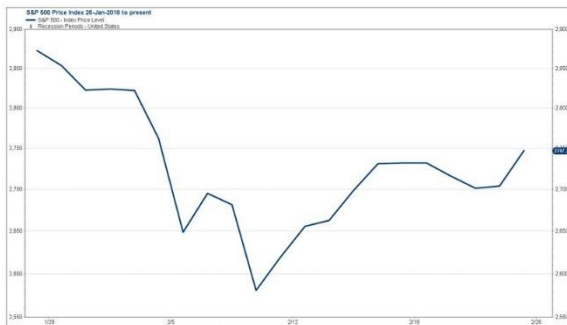
This summary is provided by BMT Wealth Management.

Where Are We Now?

The behavior of the financial markets last week looked almost normal, compared to the high volatility we have seen recently. For the holiday-shortened week, the S&P 500 Index rose +0.55% from the Feb. 16 close.

Since the Feb. 8 market low, the S&P 500 has regained more than 50% of its losses. Peak to trough, the Index was down -11.8% on an intraday basis.

**S&P 500 Index from
Peak (1/26/2018) to Present (2/23/2018)**



Source: FactSet, Inc.

Thus far, this market correction has been short, relative to previous sell-offs. History indicates that the median duration for a correction (which we are defining as a decline of at least 10%) is almost seven months.

According to analysis by Strategas Research Partners, in 1996 and 1997 there were a total of three corrections of 10% or more, each of which was much shorter than the median time of seven months. The second of the two corrections in

1997 (-13%) took place over a very short 14 trading days.

This is not to suggest that we are out of the woods. Rather, it indicates that underlying economic and monetary conditions can produce different market behavior.

What Underlies This Correction?

In our opinion, the current round of market volatility has its roots in the shift to a more restrictive monetary policy, coupled with upward pressure on longer-term interest rates. The pressure on interest rates is due to accelerating economic growth and expansionary fiscal policy (e.g., tax cuts and spending).

Coming out of the Great Recession of 2008-09, the Federal Reserve, and eventually other central banks around the globe, embarked on an aggressive program of quantitative easing by lowering short-term interest rates and buying long-term debt obligations. The latter was designed to reduce the supply of outstanding securities in the market and inject additional cash into global economies.

The actions by the Federal Reserve and other global central banks, including the European Central Bank, occurred within an extended period of declining interest rates that had commenced in the early 1980s. The extraordinary moves to lower the cost of borrowing and spur economic growth created a "safety net" under riskier assets.

As this period of “easy money” changes, we see volatility rising and long-duration assets, such as equities and longer-maturity bonds, being priced on their respective fundamentals and less on expanding valuations with an assumed safety net.

Where Do We Go from Here?

We remain constructive on the trajectory of economic growth and corporate profitability over the near term. In this environment, we see continued upward pressure on interest rates, as

the bellwether ten-year U.S. Treasury bond closed out Friday (Feb. 23) to yield 2.87%, versus 2.41% at 2017 year-end.

Revenue and earnings have been very strong, with fourth quarter 2017 corporate earnings higher by almost 15% on a quarter-over-quarter basis. We see earnings, not valuation (P/E) expansion, being the driver of equity prices.

Our approach will remain very selective and valuation-conscious across all asset classes.

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