Market Currents

- A Brief Correction. February's stock market pullback saw both the Dow Jones Industrial Average and S&P 500 briefly entered correction territory, after falling slightly more than 10% from their January highs. The last correction took place two years ago, in February 2016, when markets fell on fears of a Chinese economic slowdown and collapsing oil prices.

- Economic Picture Today. Fast forward to today, we believe the fundamental economic picture is a whole lot brighter than at any point in time in the years following the financial crisis. Despite their move higher, interest rates remain low, global growth is solid, and corporate earnings are coming in better than expected. The earnings tailwind from lower corporate tax rates hasn't yet kicked in.

- Volatility Makes a Return.   After a remarkably long period of tranquility in the financial markets, volatility spiked alongside the market correction, as investors shift their focus towards the uncertainties.

- Sentiments Now in Balance.   Investor sentiment entering 2018 was far more bullish than average, bordering on euphoric levels. Bullish sentiments relative to the bears have reversed from a four-to-one ratio to a level where they are now in rough balance. As a contrarian indicator, we think that tempered investor expectations on the market is a positive development for its longer-term health.

- Shift in Market Climate. We sense that market climate is shifting. Money is getting tighter as interest rates move higher, and inflation is perking up at a higher pace than prior. Add to that the large proposed increases in Federal spending, combined with deficits from the tax cuts, and we are embarking on a different course for the economy than has defined the last several years.

- A Bull Market Correction. On average, there is a correction every 20 months. The market was ripe for a pullback, and when it arrived, the impact was swift. The selloff may have been sharper than what we are used to, but the market had also gone up in similarly sharp form. Importantly, the correction has been confined almost entirely to stocks. We are not seeing stressed spreading to other asset markets, including credit. To us, this strongly suggests that the present market weakness is not something more systematically worrisome, or a moment unduly affecting the real-world economy.   We do expect volatility – both to the downside and up – to persist for a while, but we maintain the view that this pullback is a healthy correction within a bull market.

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2/14/2018