THE CAPITAL MARKETS

Presbyterian FOUNDATION

NEW COVENANT TRUST COMPANY

Issue 1 | 2018

Market Volatility has Returned

The major market indexes ended sharply lower Monday, triggering a flurry of media coverage, headlines, and uncertainty for investors as they experienced the first 5% pull back in over a year and a half. The market's calm and steady ascent, which characterized all of 2017, was interrupted as this year's strong start turned negative in two trading days. While the onset of volatility may have been an unpleasant surprise, it's important to note that a pullback of this nature is more normal than the endlessly rising market we had grown accustomed to. Events like this provide a timely reminder that a disciplined, goals-based, and long-term approach is more valuable than focusing on daily price swings.

WHAT HAPPENED

Heading into 2018, observers were beginning to note the length and scale of the market rally that began in late 2016. It had been over two years since the last 10% correction, which occur on average about every 18 months. Inflation, a natural drag on the stock market, was consistently cited in 2018 forecasts as a key risk to the markets moving forward. The pullback appears to have been triggered by good news, as wage gains for the past three months were reported stronger than expected on Friday, Feb. 2, raising investor concern about inflation. By the time the market closed Monday, Feb. 5, the sell-off had erased year-to-date gains for the major market indices, and appears to have spread concern globally.

OUR VIEW

While sharp declines in stock values are understandably concerning and unpleasant, the sort of volatility we've seen this week is historically rather common. Declines of 5% or more occur on average about every 71 trading days, or 3.5 months. It had been 80 weeks since the last 5% correction, a steady rise the market could not have maintained forever. Despite the onset of renewed volatility, economic fundamentals remain strong, supporting the view held by many that this pullback does not mean the U.S. economy is headed for recession in the short term. Despite this, many observers believe 2018 will see more volatility than in the recent past. This is a reasonable view, given that volatility has been at record lows.

While no one can predict the ultimate result of this volatility, or the short-term swings along the way, we believe maintaining a diversified and disciplined strategy based on your long-term goals is the most prudent way to plan no matter where we are in the market cycle. Daily, weekly, and even quarterly returns should be taken in the context of your long-term goals, which are usually measured in years or decades. We believe having the right asset allocation and remaining disciplined is the more important factor to success in this long-term context.

James Carey joined New Covenant Trust Company in December 2017 and is a CERTIFIED FINANCIAL PLANNER ™ professional with six years of financial services experience. James will help with portfolio management, asset allocation strategies, securities trading, and settlement. He will also assist with investment research and due diligence, as well as monitoring developments in the capital markets.

James holds a Bachelor of Science degree in Business Economics from the University of Louisville. He expects to complete his MBA in August and is a Level II candidate in the CFA Program.