

February 2018

Investment Insights

Observations on recent market volatility

Ellwood's Capital Markets Committee

Volatility has returned to global equity markets. This perhaps isn't entirely surprising after a sizzling 2017 in which the S&P 500 generated a total return of 22% with record low levels of volatility. In fact, the S&P 500 generated losses of 1% or larger in only four trading days during 2017; the last time this happened was 1995.

The decline of 4.1% on February 5 was the largest since 2011, a period marked by Standard & Poor's downgrade of the AAA credit rating for U.S. Treasury debt and the Eurozone debt crises. But unlike 2011, the world today is enjoying a level of synchronized global economic growth not seen since before the 2008 financial crisis, providing a tailwind to equity and credit markets.

As noted in [Ellwood's 2018 Investment Outlook](#), we anticipate that the confluence of solid global economic growth, stimulative tax policy, and low unemployment could set the stage for above-consensus inflation in the U.S. Recent inflation data is beginning to support this view. Combined with a slightly more hawkish press release from the Fed's January 31 meeting (i.e., expressing new concerns over inflation), markets have started to price in a higher probability of the Federal Reserve accelerating its path of rate hikes. Markets enjoyed a massive

dose of stimulus from global central banks since the financial crisis through their low interest rates and quantitative easing regimes. Now, the market is adjusting to a world in which central banks move towards normalizing monetary policy. This may be particularly troublesome with valuations across many asset classes trading at levels well above historical averages.

While the volatility is unsettling, fundamental economic drivers of growth do not change overnight. While financial conditions bear watching, as they can influence or be predictive of the future direction of economic growth, Ellwood is not yet envisioning a short-term scenario of this volatility leading to a recession. Volatility is a normal component of long-term investing, and this past week's market activity is much more typical than the unusually low volatility environment in 2017 we enjoyed so much.

We will continue to monitor the impact of volatility on capital markets and will report back to you with material changes in our investment outlook. That said, our focus will be on the longer-term impacts as opposed to the daily, short-term volatility we are seeing today. In the interim, please let us know if you have any questions or would like to discuss further.

E

33 W Monroe Street
Suite 1000
Chicago, IL 60603
(312) 782-5432

5299 DTC Blvd, Suite 810
Greenwood Village, CO 80111
(303) 738-0300

ellwoodassociates.com

Advice. Aligned

Important Disclosures

The information provided herein is for educational use only and not to be construed as investment advice. In no way should the information herein be construed as personal recommendations as it does not take into account the particular investment objectives, financial situations, or needs of individual clients.

The information presented is not an offer to buy or sell securities, nor should it be construed as tax or legal advice. Any opinions herein reflect our judgement as of this date and are subject to change. The historical information included herein is historical only and is not a guarantee of future performance.

There are risks involved with investing, including loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations.

About Ellwood

For four decades, Ellwood has customized investment programs that are practical, grounded in fundamental research, and focused on bottom-line performance. Our consulting practice is national in scope and is focused on serving seven primary practice areas: Healthcare Systems and Hospitals, Corporate Defined Benefit Plans, Corporate Defined Contribution Plans, Endowments and Foundations, Public Funds, High-Net-Worth Clients, and Wealth Management Advisory Services.

Ellwood was founded in 1977 and is a 100% employee-owned, independent investment consulting firm with no parent or affiliate organizations. Ellwood is based in Chicago, IL with a regional office in the Denver, CO area.