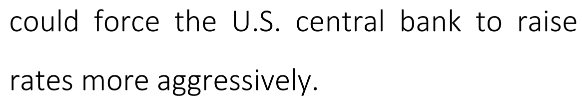

could force the U.S. central bank to raise rates more aggressively.

3) Perhaps another reason that we have witnessed large swings in the market is the utilization of program trading and stop loss strategies. Both of these tend to exacerbate the downside when there is an absence of buyers to take the other side of a trade.

For 2018, the U.S. central bank has forecast that they plan to raise the short-term Fed Funds rate three times from a level of 1.50% to 2.25%. In the context of continued growth in the U.S. (and global) economy, rising corporate profits and healthy consumer and business demand, and four rate hikes versus three should not be a major concern. However, should inflationary pressures continue to build through the year, that could become a bigger concern for the central bank (and the markets) during the second half of the year heading into 2019.

In summary, it appears that interest rates are finally starting to move somewhat higher, reflecting healthy consumer and business spending, rising wages, and solid economic growth around the world. What is not yet clear is whether we are seeing a short, sharp shakeout in the stock market which then quickly reverses higher again, or whether we are at the start of a multi-week / multi-month consolidation / correction. Neither will cause us to try to time the markets since our longer-term global growth thesis remains very much intact.

Heading into this past week, most technical Indicators (i.e. % of stocks above their 200-day moving average and the market's cumulative advance decline line) pointed to a positive back drop for equity markets over the intermediate term. At least historically, there has been a period of deterioration in these numbers before the market starts to weaken significantly. We have been saying for some time that a brief pullback or consolidation in the markets would be healthy. The impact of volatility based ETF's and ETN's along with temporary fears of rising rates may just be the triggers that lead to a brief (and in our opinion overdue) consolidation in the market.

Monday's -4% S&P decline now brings the correction tally to just under 8%. We suspect that we are getting closer to the end of this drawdown than the beginning in terms of magnitude, but its duration (note: the market is just 6 trading days removed from its most recent all time high) is less certain and could last somewhat longer. It could very well take a few days or weeks before investors feel more comfortable and jump back into the market. In the past market pullbacks / corrections have taken place in the context of a "bang" followed

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by a “whimper.” The past few days likely represented the “bang” and soon (we think) the markets will start the repair and recovery process.

We believe that we are still in a bull market supported by solid global economic fundamentals and rising corporate profits. Our viewpoint (from what we have gleaned so far) says this looks like a major positioning unwind caused by institutional investors who purchased specialized ETF’s and ETN’s betting against a rise in volatility…which went wrong for them. As long as various indicators like corporate credit spreads, weekly jobless claims, consumer and business confidence etc. do not deteriorate in the period ahead, we think the markets should be just fine over time as investors ultimately start to focus once again on positive business fundamentals.

As an important side note, bond prices (based on the Bloomberg Barclays U.S. Aggregate Bond Index) have declined almost 2% so far this year. With approximately 45% of RDM client assets in some form of fixed income investments, we want to point out that on average, your investments are positive on the year overall. So, from a balanced portfolio point of view, the safety and benefit of owning individual bonds along with short term bond funds (which represent the short end of your bond ladder along with dry powder for future fixed income investment opportunities) has paid off.

As always, feel free to reach out and give us a call with any questions you may have.

Respectfully,

Michael Sheldon, CFA
Executive Director & CIO

Ronald D. Weiner, CFP®
Managing Director & Partner

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The S & P 500 is widely regarded as the best single gauge of the U.S. equities market. The S & P 500 focuses on the large-cap segment of the market and includes a sample of 500 leading companies in leading industries throughout the U.S. economy.

The Bloomberg Barclays US Aggregate Bond Index is a market capitalization -weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds , and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds , Corporate bonds , and a small amount of foreign bonds traded in U.S.

An ETF, or exchange-traded fund, is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund. Unlike mutual funds, an ETF trades like a common stock on a stock exchange.

An exchange-traded note (ETN) is a senior, unsecured, unsubordinated debt security issued by an underwriting bank. Similar to other debt securities, ETNs have a maturity date and are backed only by the credit of the issuer. ETNs are designed to provide investors access to the returns of various market benchmarks.

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