# Current Market News

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## Reversal of fortune?

### What happened?

Global stocks continued their rapid descent Monday during a turbulent trading session. In the U.S., the S&P 500 and Dow Jones Industrial Average (DJIA) indexes fell 4.10% and 4.60%, respectively; their largest percentage drops since mid-2011 when the U.S. sovereign debt was downgraded by Standard & Poor's. International equity markets also suffered, with early indications suggesting 4%+ down moves there as well. Equity selling pressure began last week with investor concern around rising inflation and a corresponding ascent in bond yields. While these concerns remain, the 10-year Treasury yield fell yesterday on flight to safety positioning.

At one point Monday the DJIA was down over 1500 points, its largest intraday drop in history. It is likely that algorithmic traders, particularly trend following strategies, contributed to the heavy selling. While large in an absolute sense, a little historical perspective is warranted. The DJIA was down 508 points on Black Monday in 1987, which equated to a stunning 22%+ decline. Said differently, 1500 points isn't what it used to be... Despite the fact that 2018 gains have now been erased for many of the major indexes, a quick look at ***Exhibit #1*** demonstrates the recent reversal in the context of longer-term trends. Indeed, it shows the sharp decline has only served to offset the parabolic run-up in equities these past few months.

### What we think

It has been over 400 days since the market fell by more than 5%, which is quite long by historical standards. In fact, it is not uncommon to see a 10% or greater market correction in any given year, though those occurrences have been a rarity in the current bull market.

Looking past the daily price fluctuations, we believe this pullback is more technical in nature than fundamental or structural. Several key indicators reinforce our view. They include the U.S. Treasury yield curve which, as can be seen in ***Exhibit #2***, is still well above zero. The yield

Exhibit #1

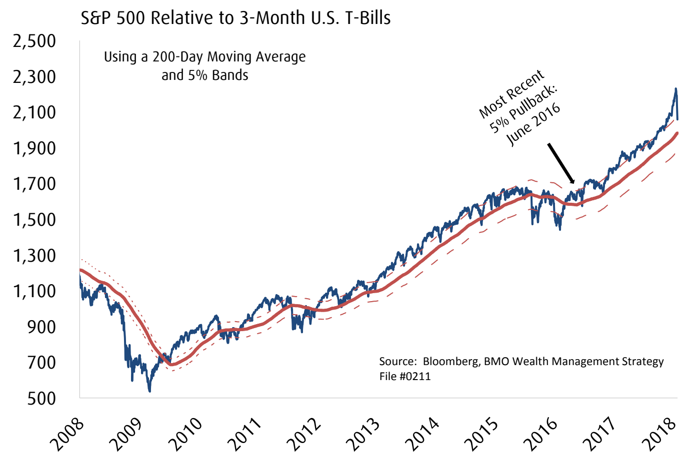
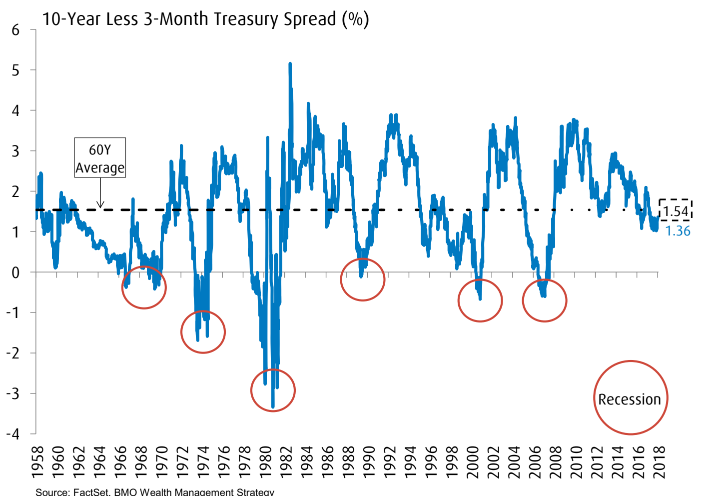



Exhibit #2

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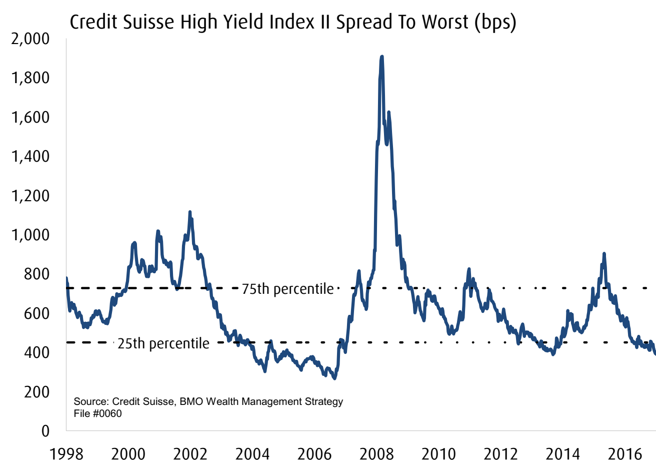
curve has actually steepened recently, and this is typically a sign of economic strength. High yield spreads, shown in ***Exhibit #3***, also remain extremely tight by historical standards. This suggests stable credit markets, which often lead stocks in periods of stress. Other data points, including PMI readings and various business survey measures, also continue to paint a favorable economic picture.

## Conclusion

Compared to previous short-term corrections of this magnitude, we believe there are limited signs of greater structural risk. Protracted equity market declines are almost always associated with impending recessions, and the conditions or economic imbalances that would cause greater concern are currently not evident. Of course, the market and the economy are not one and the same, and it is important to recognize that equity markets are prone to overshooting in both directions. Our analysis suggests that the current price movement is more technical in nature, and perhaps overdue in historical context. We will continue to monitor the situation closely, and while more choppiness may lie ahead, we view the current backdrop as still favorable for risk assets.

Exhibit #3

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