

## THE WEEK IN REVIEW

Global stocks continued to sell off sharply this week following last week's declines, as the S&P 500 Index entered correction territory Thursday afternoon and Friday morning before rallying into the close on Friday. A correction is generally defined as a drawdown of 10% or more from the most recent highs. The S&P 500's closing level of 2,619.55 today is 8.8% lower than its all-time closing high of 2872.87 just two weeks ago on January 26. Investor's concerns about the acceleration of stock prices over the last several months, a potential pickup of inflation and a faster pace of Federal Reserve (Fed) rate hikes in 2018 combined to create the environment for this sudden bout of profit taking. Despite the abrupt shift in sentiment, it is useful to consider the recent market declines in a historical context and against the backdrop of current economic and corporate earnings trends. The S&P 500's two worst days of the last two weeks were its 4.10% decline Monday, February 5 and its 3.75% decline Thursday, February 8. These percentage declines rank as the 39th and 50th worst in the last 40 years. In 2008 alone, the S&P 500 suffered 14 daily percentage declines worse than its 4.10% decline on Monday.

The S&P 500 has experienced eight relatively sudden drawdowns of at least 7.0% since the beginning of the current bull market in March 2009. On average, we have seen a correction about once per year. These include the Chinese currency devaluation in August 2015, the drawdown in January 2016 related to the initial Fed rate hike and energy price meltdown. The average decline was 11.7% and lasted 57 calendar days (about eight weeks). The average recovery period for the S&P to regain its level before the drawdown began is 172 days. While they can be painful in the short-term, corrections since the financial crisis have tended to occur somewhat frequently, but have often been relatively short-lived.

The catalyst for the recent declines was largely driven by fears about inflation and the potential Fed response of faster-than-expected interest rate hikes. It seems too early to either declare imminent inflation or to know exactly how new Fed Chairman Jerome Powell and his colleagues will steer monetary policy. Moreover, most global economies are experiencing healthy levels of growth and the U.S. corporate sector is showing signs of strong corporate profit growth. According to the median Bloomberg analysts' forecast, the S&P 500 Index is on pace to grow earnings by approximately 13% and 27% in 2017 and 2018, respectively. We do not believe a shift away from equities in a diversified portfolio is currently justified. We view the cyclical backdrop for equities as positive given synchronized global growth, rising corporate profits and relatively easy monetary conditions compared to history in the U.S. and abroad.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
JOLTS Job Openings (Millions)	5.81	6.18	▼
Consumer Credit (\$ billion)	18.45	9.20	▲
ISM Non-Manufacturing	59.9	59.8	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	24190.90	-5.21%	-2.14%	19.92%
NASDAQ	6874.49	-5.06%	-0.42%	20.28%
S&P 500 Large Cap	2619.55	-5.16%	-2.02%	13.51%
MSCI EAFE	2022.67	-4.76%	-1.37%	16.63%
Barclays Aggregate US	2006.52	-0.13%	-1.95%	1.00%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.55%	1.42%	0.54%
10-Year Treasury	2.85%	2.55%	2.39%

REPORTS DUE NEXT WEEK	LATEST
Consumer Price Index (YoY)	2.1%
Retail Sales (MoM)	0.4%
NFIB Small Business Optimism	104.9
Housing Starts (Millions Annualized)	1.19
U. of Mich. Consumer Sentiment	95.7

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.

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