

## Market Currents

- **Return of Volatility.** After a prolonged period of market tranquility with equities grinding steadily higher, volatility returned abruptly at the beginning of February. Risk assets saw their prices decline sharply, but they rather quickly recovered much of the early losses.
- **Sentiments in Balance.** Investor sentiment entering 2018 was much more bullish than average, bordering on euphoric levels. Bullish sentiments relative to the bears have reversed from a four-to-one ratio then to a level where they are now in rough balance. As a contrarian indicator, we think that tempered investor expectations on the market is a positive development for its longer-term health.
- **A new Fed Head.** Jerome Powell succeeded Janet Yellen as Federal Reserve Chair. His inaugural testimony before Congress led to investor concerns of faster-than-expected rate increases from the central bank. The latest FOMC meeting minutes, however, suggest that even though the committee remains optimistic on the outlook for the US economy, the belief is that monetary policy needs to be normalized very gradually.
- **Tariff Tantrum.** President Donald Trump said the United States will impose tariffs on steel and aluminum imports, in a move that will likely increase tensions with major trading partners such as China. Stocks reacted negatively initially, but have since recovered most of their lost ground. New trade tariffs are not without precedent, and do not necessarily start a trade war. The risk becomes possible retaliation from US trading partners. The situation is dynamic, to say the least, and we are monitoring developments closely.
- **Exodus at the White House.** The White House is facing some chagrin following further high-profile departures. Gary Cohn, the top White House economic adviser, is the latest to resign from the Trump administration, following alleged disagreements with the President's tariff decision. Many viewed the former Goldman Sachs executive as a steadying influence on economic policy, and consider him to be "Wall Street friendly." Hope Hicks, the President's Communications Director, also recently left the West Wing.
- **Shift in Market Climate.** We sense that market climate is changing. Money is getting tighter as interest rates move higher, and inflation is perking up at a higher pace than prior. Add to that the large proposed increases in Federal spending, combined with deficits from the tax cuts, and we are embarking on a different course for the economy than has defined the last several years.
- **A Bull Market Correction.** Volatility has returned to the market, and will likely remain present for a while. A more aggressive Fed and a tariff announcement have played a role, but we don't see these as threats to the bull market. Strong earnings momentum, corporate tax cuts, deregulation, and fiscal stimulus underpin our positive view. We maintain the view that this pullback is a healthy correction within a bull market.

Christopher Lai  
Senior Portfolio Manager  
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