

February 2018

## February's Current Market Correction

In the January Market Insights newsletter, we noted the increasing odds for greater market volatility this year, given that 2017 was the least volatile year (along with 1995) since World War II. Our expectation was that a normal market correction was very likely and – only a few weeks into the year – here we are.

### What caused the correction?

In a word, gravity (or, what quant types call “mean-reversion”). The Dow crossed 24,000 on November 30th. In the subsequent 8 weeks, the market rose an astonishing **+9.6%**. That is an unsustainable trajectory. If the market continued on the same pace for another 8 weeks, we would be discussing “Dow 30,000” at the end of March. Stock prices were rising more rapidly than growth in their underlying income or sales and, thus, were simply due for a fall.

### Have we changed our primarily bullish view for 2018?

No. We expect stocks to deliver better returns than bonds. However, our expectation is that returns in 2018 will be a fraction of what they were in 2017.

### Is 2018 likely to deliver the same level or kind of performance?

Also, no. We acknowledge there are more headwinds for stock investors this year – increasing interest rates, potential wage inflation, a weaker US dollar. However, the global economy is fundamentally strong, with all 10 of the world's largest economies growing at positive rates for the past three quarters (according to the IMF). Inflation remains relatively contained at around

**2%** annually. And stimulus from the federal government will be large in 2018, with an expected budget deficit of \$1 trillion for Uncle Sam's 2019 fiscal year (per the bipartisan Committee for a Responsible Federal Budget).

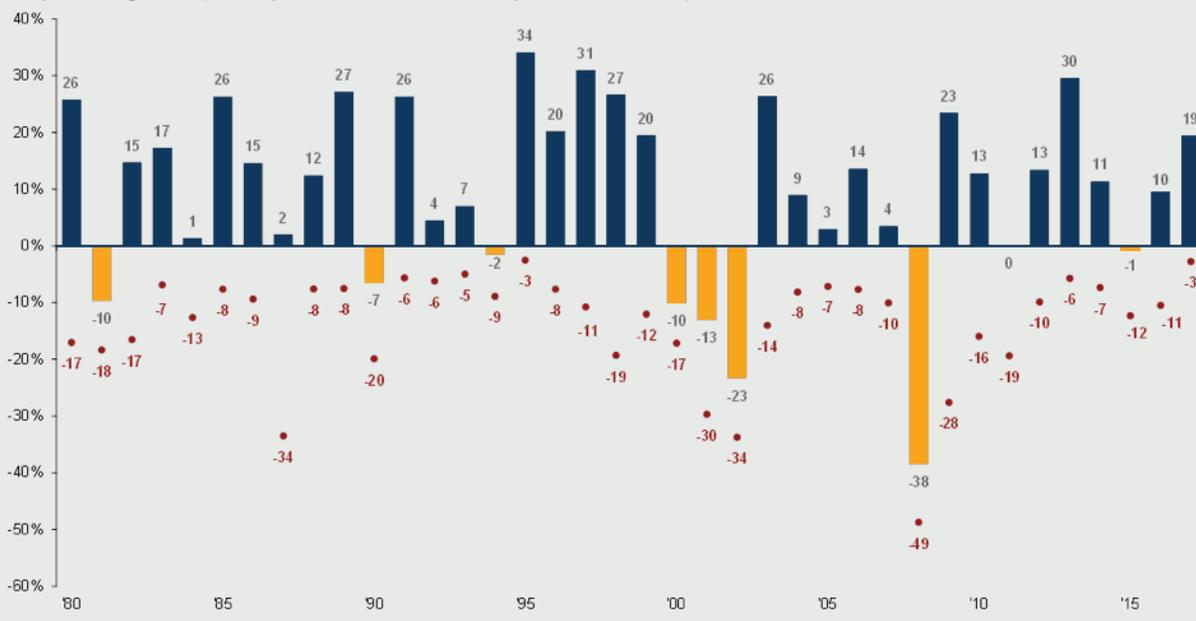
### How bad is this correction?

The history of stock market corrections should give investors comfort at this time. According to JPMorgan Asset Management, during the past 37 years, the stock market has delivered an average correction of **-13.8%**. Nonetheless, the market's average annual return was **+8.8%**, during a time period that included four bear markets (including the “mega bears” of 2000-2002 and 2008). Last year was not “normal” because stocks experienced a decline of only **-3%**. Based on the past week's movements, it appears 2018 is bound to deliver a more normal range of swings in stock prices – swings that are greater than what we have experienced for the past year and a half.

**“The history of stock market corrections should give investors comfort at this time.”**

## S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 13.8%, annual returns positive in 29 of 38 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2017, over which time period the average annual return was 6.6%.

Guide to the Markets – U.S. Data are as of December 31, 2017.

**J.P.Morgan**  
Asset Management

## Parting Words

Our message today is two-fold: 1) focus on your long-term return objective, including how your current portfolio is constructed to meet that goal; and 2) evaluate your ability to tolerate the inherent price volatility of investing, especially if you have a long-term time horizon of 10+ years. In light of those two criteria, recent short-term, extreme movements in the stock market may be immaterial to your investment goals.

In any event, we are accountable to you and serve as a partner in your investment decision-making. We will be here with you, navigating choppy and calm markets. You should always feel free to contact your Webster Private Bank portfolio manager to discuss your investments and how we can position your portfolio to improve the odds of achieving and exceeding your investment goals.

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