CBL WEALTH MANAGEMENT
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Market Brief

February 22, 2018

Market Snapshot

Closing Values as of 02/22/2018

Dow	25,316
S&P 500	2,747
Nasdaq	7,337
Gold	$1,331

What a difference 2 weeks makes …

It was just 10 trading days ago that the markets bottomed after a week of painful declines and a incredible volatility. On a percentage basis the intraday and daily declines were significant but not record breaking, on a pure numerical basis they were definitely charting new ground ...but then why wouldn't they be the markets are at highs never seen before. Now, just two jittery weeks later the markets have regained half of what was lost and are now once again positive for the year.

But is it over?

The rapid pace of this corrections recovery would seem to suggest more trouble is ahead. It is not uncommon for markets to experience rapid and deep declines like we saw at the beginning of February. What is NOT typical is a complete and permanent recovery within two weeks. Usually we see a short recovery period (like we are seeing now) followed by a retest of the lows seen during the earlier correction. If the correction lows hold, a new period of growth begins. There is no reason to believe this time will be different.

One thing that is a little different at this time is the somewhat unique convergence of market, economic and interest rate conditions. Not that any one of these things by itself is unique but how they might end up influencing one another (or being influenced by other forces) in the future is something to consider. As an example of how these things can influence the markets … It is believed low unemployment and an uptick in wage inflation data at the end of January (a generally good indicator) caused a rapid rise in interest rates over fears of expected inflation ...which started the whole stock market sell off.

Longer Term Outlook & How to Prepare

Generally speaking the current economic outlook is strong. Leading indicators have been positive 12 out of the past 13 months (October 17 was the only negative month) and GDP growth looks to be improving. Other than a continuation of the current there doesn't seem to be any reason investors shouldn't consider being invested in a quality stock portfolio at the moment. It seems rising interest rates and their impact on bond portfolios is the biggest concern at the moment. Still, rising interest rates and inflation will eventually be the death of the bull market so investors need to be prepared for what may come.

Right now all we can say is the economy will eventually stall and the bull market will eventually end, until then the best course of action is to participate with a measure of caution until we have better information. Unless the retest of recent lows shows more weakness I anticipate being able to once again add to equity positions on the next pullback.

Return of the Bond Vigilantes? Ever since Ed Yardini coined the phrase in 1983, the term “bond vigilante” has been used to describe a bond market investor who was protesting monetary or fiscal policies he considered inflationary by selling bonds, thus increasing yields. Coincidence or correlation, while the market was in the midst of the most volatile portion of the correction it appeared Bond Vigilantes (or some other selling force) rapidly pushed rates higher. Now, as rates seem to have normalized and even begun to retract a small amount, the markets are once again on the rise.

Bond Vigilantes or not, recent behaviors in the bond markets underscores the importance of being prepared for a rising interest rate environment. We won’t know the pace or magnitude of the increase in rates but we do know rising rates will put the most price pressure on longer dated bonds, so we want to continue to own shorter dated bonds. Now is not the time to reach for yield, now is the time to focus on quality and short duration.

With the prevalence of ultra low interest rates many people have taken on excessive amounts of personal credit debt or margin debt. These debts payments are likely to be significantly increased as rates rise and should be address before rates change significantly.