

Market Observations May 2018

ADRIFT

Financial markets have not been as placid in the first four months of 2018 as the ocean encountered by Coleridge's ancient mariner. Nevertheless, this environment of few clear trends and more than a few crosscurrents has left investors feeling adrift without direction. Such relative market idleness can engender a felt need for action when none perhaps is warranted. A review of this environment can provide perspective for setting and achieving investment goals.

Perspective

The simplified charts shown here convey the investment environment in the year-to-date. The U.S. stock market, as shown in **Chart I**, has been far from idle day after day. But the market certainly has been without an overall trend, friendly or otherwise. Following a strong January increase and an even greater February decline, the market generally has been adrift. Some analysts have taken comfort in that the market has reached but not fallen below a visible support level.

One clear trend has been rising short-term interest rates, reflecting the deliberate policy of the Federal Reserve. Such policy has been designed with expectations for levels of real economic growth and rates of inflation yet to be realized. **Chart II** shows that while longer term interest rates have moved higher, they have not been fully anchored to short-term rates. Since the start of the year, expectations have been for the 10-Year U.S. Treasury note yield to reach and surpass 3%. For much of this period, this yield has been adrift. While the 3% level was reached, a sustainable trend to higher rates appeared far from certain.

Following a decline relative to other major currencies in January, the U.S. dollar has moved irregularly higher. As shown in **Chart III**, however, the dollar ended April about where it started the year. Comparative rates of economic growth and inflation, divergent monetary policies and ongoing geopolitical uncertainties have produced strong crosscurrents in which the dollar has been adrift without clear trend.

Investment Implications

Historically, financial markets have not remained adrift and trends have emerged. The timing, direction and magnitude of such emergence are of sufficient uncertainty to often render short-term portfolio adjustments ineffective if not injurious. However, while markets may be adrift, investors remain in control. Portfolios can be anchored to clear goals with identified time horizons. Due consideration can be given to levels of portfolio risk that can be sustained whether markets are adrift or trending, day after day.

*Day after day, day after day,
We stuck, nor breath nor motion;
As idle as a painted ship
Upon a painted ocean.*

Samuel Taylor Coleridge

Chart I

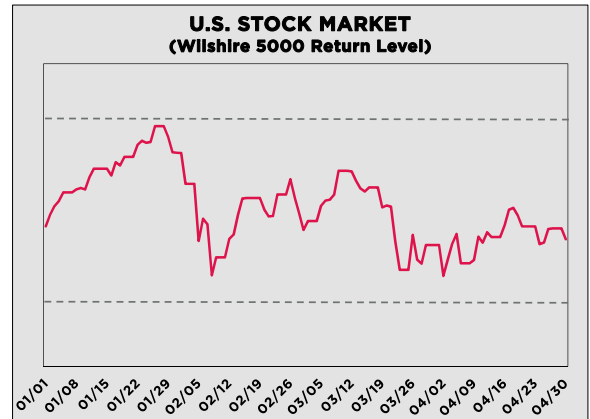


CHART II



Chart III

