United Church Funds Remains Positive After Global Market Plunge

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With the Dow Jones Industrial Average, the S&P 500 Index, and other global equity markets having sold off after a strong January, we want to provide our perspective on the sudden return of volatility to the markets.

What happened?

First, the Bureau of Labor reported nonfarm employment increased by 200,000 in January and wages were up 2.9% compared with a year earlier, the best pace since June 2009. The good news of strong employment and wage growth led to concerns the U.S. Federal Reserve (Fed) would speed up its rate hikes and cease the abundant monetary support in place since the financial crisis of 2008-2009. Investors became concerned higher wages would result in lower company profit margins, especially if productivity does not show a commensurate increase. At the same time, some earnings disappointments materialized from a few giants, including Google and Visa. These events led to a selloff in the bond markets, with a rise interest rates and drop in bond prices.

Second, then there are the issues of politics and public policy. We are approaching the expiration of the extended government funding, which raises concerns the government could shut down again. Although an interim solution will likely be found, the market finds uncertainty tough to handle. Also, the Republican FBI memo was released, casting a shadow over Deputy Attorney General Rod Rosenstein, to whom Robert Mueller reports.

Finally, and perhaps most importantly, many quantitative and technical strategies in some markets using relatively new exchange-traded funds (ETFs) had wagered that low volatility is here to stay. As volatility suddenly increased, these strategies have been forced to unwind, resulting in disruption to equity markets that has been both speedy and profound.

Will the market continue to go down?

It is premature to say since market fundamentals remain relatively strong. We still believe that equity markets can deliver positive returns, but acknowledge that returns should be lower than last year. What we do believe is that higher volatility is a certainty for 2018.

As of Wednesday morning, global equities are still positive for 2018. The anomaly, we believe, is the low volatility experienced over the past year when the largest selloff was less than 3% for all of 2017! Our approach in these markets is twofold: First, diversification into markets outside the US. Second, keep an eye out for opportunities to accrue long-term benefits, when possible. Rest assured that United Church Funds will keep you apprised as events unfold over the weeks and months ahead.

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