CERITY PARTNERS

Benjamin A. Pace is the firm's Chief Investment Officer and leader of the Investment Committee. He has more than 25 years of experience in investment management. Prior to joining Cerity Partners, he was Chief Investment Officer and Head of Global Investment Solutions for Deutsche Bank Private Wealth Management in the U.S. Ben has been featured in the Wall Street Journal and Reuters, and is a frequent commentator on Bloomberg TV and radio, Fox TV and CNBC, appearing regularly on network programs such as Power Lunch, The Closing Bell, Squawk Box, and Worldwide Exchange.

COMMENTS ON RECENT VOLATILITY

ECONOMIC INSIGHTS | FEBRUARY 2018

The sharp selloff in equities over the past week has wiped out all the January gains with markets actually in the red year to date as of this writing. From the peak of the S&P 500 achieved a little over a week ago, US equities are down roughly 8% as of today's close.

The primary catalyst for the recent weakness has been the sharp upward spike in interest rates. The ten year Treasury yield has increased 75 basis points over the last five months and 40 basis points year to date. While rates are moving up largely due to the strong domestic and global economy, sharp moves upward in yields can temporarily disorient markets. Inflation expectations are creeping higher with the recent run up in energy prices and the annualized average hourly earnings increase reported within the nonfarm payrolls report last Friday. Adding the tenuous geopolitical environment and the threat of trade wars to the mix has produced a level of market nervousness we have not seen since the initial UK Brexit vote in the summer of 2016.

Recall our caution in our year end outlook pieces and our client conference call a few weeks ago. Our advice to heed your rebalancing strategy or to think about moving back to a more equal weight position in equities is based on the expectation of heightened volatility in an asset class that appeared fairly valued at beginning of the year levels.

We in no way want to present the impression we are becoming bearish as the economic and earnings outlook remain strong with no recession apparent over the near term horizon. We do want to continue to warn investors that with the Fed well into their tightening phase and longer term interest rates moving up, the valuation multiple expansion which so characterized this bull market is likely nearing an end. Further price upside will be contingent on continued economic and earnings growth. Fortunately, revenue growth and the impact of corporate tax reform are driving analysts to increase their earnings estimates in most industries after listening to management discussions in their fourth quarter earnings presentations.

Now that we are back to levels around which we began the year, it is easier to state that the euphoric follow through in January from the very strong 2017 was probably a bit overdone. The extremely low volatility in a historically risky asset class may have lulled investors into a false sense of security coming into the year. As we have said during previous corrections in this secular bull market which began early this decade, investors must take this opportunity to test their conviction around their exposure to the higher volatility asset classes. While there may be a time when those convictions wane due to forecasts of growing economic weakness, we do not believe we are in an environment of weaker economic and earnings growth at this time. As always, we will continue to monitor the economic and market landscape and update you accordingly.

Please contact your Cerity Partners advisor with any questions or concerns.

Sincerely,

Ben A Pace III

Benjamin A. Pace
Chief Investment Officer