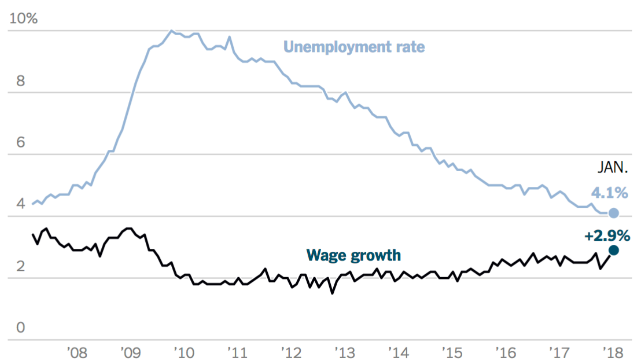
VOLATILE MARKETS? WHAT INVESTORS CAN EXPECT

Given a recent escalation of questions from advisors and their clients about current market activity, we at Astor wanted to take a few minutes to outline what all of this means for investors.

First, it's important to pause and consider these changes in the overall economic schema. We at Astor have previously discussed in our updates and podcasts how the continuous growth in the market would be due to pull back in the near future. The economy was stable and the labor market was doing very well. In the last week, the market has pulled back almost 3% and investors are beginning to worry.

A SOLID MARKET FOUNDATION

The labor figures published today were strong: **employment increased by 200,000 jobs** in January, and there were positive revisions to survey data. We also saw the **strongest year-over-year average hourly earnings** we've had post-recession.



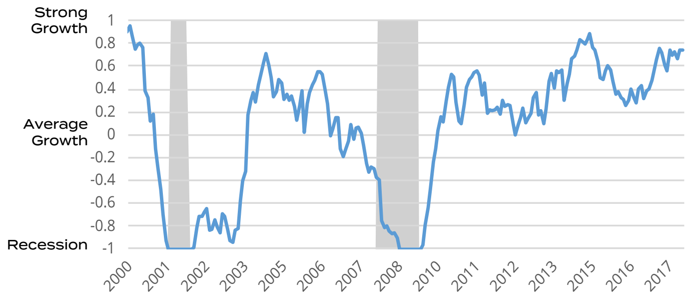
Source: Bureau of Labor Statistics

This all comes together to indicate a solid economy and foundation for the market. We have seen that this kind of environment tends to push interest rates higher and faster, and many investors were not positioned for an increase in inflation. For those who have been keeping track of Astor's projections, podcasts and Economic Outlook in recent weeks and months, you have heard us say that when we are looking at inflation, it seems as though the risk was to the upside (on inflation). With near full employment, GDP growth is now running over 2.75% average for the past three quarters.

BUT WHAT ABOUT INFLATION...

What we have is a piece of the puzzle that has been missing in recent quarters: some inflation. And the equity markets are reacting, as they should. Bonds are taking it on the chin as well. This does not mean, however, that we have runaway inflation.

All of these adjustments are in line with a stable economy and the Astor Economic Index®. Nothing substantial has changed from where we were at the start of the year. The economy continues to do well as are labor markets, and companies are showing that they are benefiting from that expanding economy.



Source: Astor calculations

Last year was a bit of an anomaly. We had **low-volatility and a strong market** because the economy was improving. As we move toward a point where economic velocity supports higher rates and inflation, that adds another dynamic. But it does not indicate the demise of the bull market or the economy itself. Rather, we are seeing what many of us thought would naturally occur, which is a pull-back.

WHAT TO WATCH FOR IN 2018

Expected returns based on lower market risk premiums were anticipated to be around 5.5% this year. We hit that in January. Did we see this being another year of 20% grinding higher? Not likely. No one said this would be easy.

The bottom line is that the economy is still strong. Yes, we have some new risks to consider, such as higher rates and inflation. But those are part and parcel with an expansion and the point in the growth cycle that we are in. An increased inflation outlook will certainly damper some optimism. We will continue to monitor the markets and economy for any drastic changes, and react accordingly. But as long as the economy continues to be strong, that's what we should focus on.

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