IdahoTrustBank

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WealthManagement

SOLUTIONS FOR YOUR LIFENEEDS™

Market Insights

A periodic newsletter from Idaho Trust Bank

Volatility in the global financial markets was very high last month, in contrast to the past two years, when markets remained relatively calm. Most major stock indexes have experienced a “correction” for the second time this year. Several factors likely contributed to the sharp market decline but it is important to remember that these movements are a normal part of stock market activity and have historically occurred more often than has been the case in recent memory.

An Increase in Volatility

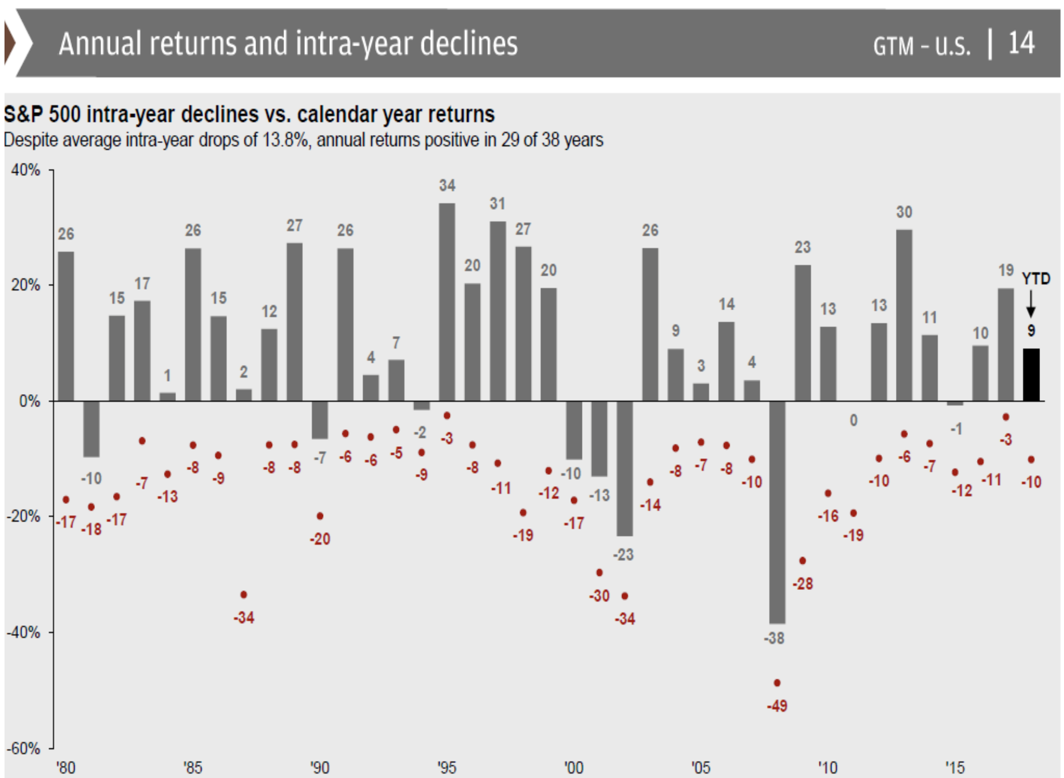
The S&P 500 experienced almost a 7% decline in October, making it the worst month for stocks in seven years. The Nasdaq index, which contains a large portion of Technology companies, fell over 9% last month. Up until the end of September, most major U.S. equity indices had experienced an extended period of strong market gains. However, in early October, The Federal Reserve Bank (Fed) Chairperson, Jay Powell, commented that Fed policy was a “long way” from neutral. The markets interpreted this statement to mean that the Fed was firmly committed to raising rates over the next year. As you can see from the chart on the next page, interest rates have moved significantly higher over the past year. In addition to tighter monetary policy, concerns over trade policy and an economic slowdown in Europe and Asia have added to the recent volatility.

Idaho Trust Bank offers total wealth solutions including its LifeNeeds™ investing process. LifeNeeds™ utilizes proven strategies and techniques delivered by a highly trained staff of wealth management professionals.

LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust Bank's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

Mortgage rates have moved up to nearly a seven-year high, which has created concerns over a potential slowdown in housing related activity. Recent market declines have negatively impacted many Technology stocks, but companies with exposure to the construction markets have experienced some of the worst declines. The S&P 500 Materials sectors declined 16% in one month.

Although it may not feel like it, after listening to recent financial news reports, the U.S. equity markets have been relatively calm since the beginning of 2016, when investors were concerned that the Chinese economy was slowing down. One way to look at volatility is to count the number of days in any given year when the S&P 500 index moved up or down by more than one percent on any given day. The number of '1%' days has increased over the past few weeks.



ource: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
eturns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough uring the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2017, over which time period the average nnual return was 8.8%.
uide to the Markets – U.S. Data are as of September 30, 2018.

J.P.Morgan

Equity market corrections within bull markets are a common occurrence. The irony of this selloff is that the corporate earnings were very strong in the third quarter. The market sell off was driven in part by concerns that growth and inflation will accelerate, causing the Fed and possibly other central banks around the world, to tighten monetary policy more than was expected. The market is undergoing an adjustment of expectations around rate hikes and interest rates. Our view is that interest rates will go up over the coming year, but not enough to slow global economic growth.

Stock Market Corrections

Most major equity markets are in the midst of a correction. Many market commentators have attempted to assign a reason for this action. However, we would like to provide some historical perspective to these events. The chart on the prior page identifies the annual return of the S&P 500 each year since 1980. The grey bar represents the annual return each year through 2017 (and year-to-date for the current year). The red dot below each bar shows the intra-year decline during that year.

Market Downturns Happen Frequently and They Don't Last Forever

Dow Jones Industrial Average 1900-2017

	-5% or more	-10% or more	-15% or more	-20% or more
Average Frequency[1]	About 3 times a year	About once a year	About once every 2 years	About once every 3.75 years
Average Length[2]	46 days	115 days	216 days	338 days

[1] Assumes 50% recovery of lost value
[2] Measures market high to market low
The Dow Jones Industrial Average is an unmanaged, price-weighted average of 30 actively traded industrial and service-oriented blue chip stocks.

As you can clearly see from the data, market corrections occur every year. The smallest decline was 3% in 2017. Interestingly, there was another 3% decline in 1995, and the market finished that year up 34%. However, in 1997 when the market rose 31%, the intra year decline was 11%. The average decline during the period from 1980 until 2014 was 13.8%.

The above chart clearly shows that high single digit or low double digit declines are common in most years. In fact, the last major correction occurred in 2015 when the market fell by almost 12%. Looking back as far as 1900, a 10% decline happens about once per year. The relatively long period of low volatility, as measured by daily swings in the market of 1% or more, was also accompanied by an extended period of time without a 10% decline

Conclusion

Given the extended period of low volatility and minimal corrections in the stock market, it is normal to expect a period of high volatility. Despite a likely increase in market gyrations, there is little doubt that the stock market generates solid returns over longer periods of time.

S&P 500 Index

3 Month	-3.25%
Year-to-Date	3.00%
1 Year	7.34%
3 Year	11.49%
5 Year	11.32%

MSCI EAFE Net Index

3 Month	-8.95%
Year-to-Date	-9.28%
1 Year	-6.85%
3 Year	3.62%
5 Year	2.02%

Barclays Aggregate Bond Index

3 Month	-0.79%
Year-to-Date	-2.38%
1 Year	-2.05%
3 Year	1.04%
5 Year	1.83%

As of 10.31.2018

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