Market Update
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After a prolonged period of relatively calm market conditions, elevated levels of equity market volatility have been prevalent in 2018. Throughout the year, rising interest rates, Federal Reserve monetary policy, yield curve flattening, trade tensions with China, political instability in Europe (e.g. Brexit) and fears of a material slowdown in future economic growth have created higher levels of uncertainty for investors. In addition, narrow market leadership in the form of growth outperforming value, a select group of companies ("FANG+") accounting for a disproportionate level of overall market returns, and significant U.S. equity outperformance relative to international equities has arguably created pockets of overvaluation in the equity market.

The byproduct of these developments has been an upward movement in equity market volatility during the fourth quarter of 2018, and it is reasonable to expect continued equity market volatility going forward, especially if a lack of clarity around the aforementioned concerns persists. While the possibility of a continuation of greater levels of equity market volatility might be concerning, it's important to consider the following:

- Equity market volatility is a normal condition in every market cycle.
  - Since 1928, the S&P 500 Index has experienced an average of three drawdowns of at least 5% per year (source: BofA Merrill Lynch, S&P).

- Equity market volatility is often beneficial for actively-managed strategies.
  - Valuation-conscious, quality-focused active equity managers have often demonstrated the ability to protect capital during periods of falling equity prices.
  - Period of indiscriminate selling often creates a more favorable environment for active managers to identify high quality companies trading at significant discounts to fair value.

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- Asset price volatility can create opportunities for asset allocators.
  - Elevated market volatility often provides greater opportunities to exploit asset price dislocations.

Despite rising asset price volatility and concerns about a looming slowdown in economic growth, our one-year forward looking returns for U.S. equities, international developed markets equities, emerging markets equities, and U.S. aggregate fixed income are currently in positive territory.

When market conditions become unsettling, the most important thing to remember is this: **stick to your plan.** As the severity and duration of equity market drawdowns is impossible to predict, it is important to remain invested, even during periods of falling equity prices. Market timing is an impractical exercise as no one can consistently identify market tops and bottoms. Ultimately, this behavior results in lower returns over a full market cycle. Further, it is not uncommon for the best days of equity market performance to quickly follow the worst. Simply remaining fully-invested rather than missing the best days can help increase the probability of investors meeting their long-term risk and return objectives.