

Special Market Update: The Market Selloff

January 15, 2016

As we head into a long weekend investors are flinching and heading for the exits. Certainly there are plenty of reasons for concern.

- The S&P's decline in January is so far the second worse monthly decline on record (October 2008 posted the biggest decline).
- China's slowdown in growth is being felt throughout the global economy.
- The global slowdown has manifested itself in sectors beyond energy, and the U.S. manufacturing sector has indicated contraction in the last two months.
- Corporate earnings have been in recession for two quarters and 4Q earnings most likely will be negative compared to the same quarter a year ago.
- Oil prices continue to drop and the price of oil is now below \$30/barrel.
- Some of the major markets indices are officially in correction territory.

But there are also reasons investors should not panic.

- Strong employment and job growth indicate that the economy is not headed for imminent recession.
- Consumer spending and sentiment are holding up well.
- Earnings growth, while negative, is not plummeting as it was in 2007/2008.
- Low energy prices are good for consumers.
- The Fed will be slow and measured in raising rates. Lower inflation pressures will help the Fed justify holding off on another increase.
- Stock prices were not significantly overvalued before the recent rout and are now close to historical averages (between 15x-16x earnings).
- The S&P 500 is about 9% cheaper than the end of last year. When the dust settles, bargain hunters may have an opportunity to pick up great companies at a discount.
- Fixed income investments — including corporate credit, U.S. Treasuries and GNMA — are providing their intended risk-control function.
- Where there is turmoil there is opportunity.

Global diversification helps smooth the bumps when trying to navigate volatile markets. As with any correction, now is the time to persist with the investment plan created in calmer times and avoid any rash actions that may be inconsistent with your long-term investment goals.

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