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MARKET UPDATE

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Following a 2.5% drop in the Dow Jones Industrial Average on Friday, the Dow fell over 1,000 points Monday, thus continuing a long overdue correction in the markets. The selloff represents the biggest decline in the Dow since 2011 and erases the 5% gain for the year. As to be expected, bond prices rose sharply, as investors pivoted into asset classes deemed safe.

Because the stock market affects the confidence of the consumer, and consumer spending accounts for about 70% of the U.S. economy, there is a risk that an extended decline in stocks threatens this business expansion that began in 2009. Going forward, a critical issue for financial markets remains interest rates, and the pace that the Fed plans to increase rates. Currently, markets are anticipating three rates hikes in 2018 (increments of .25%), with the key question being how stocks will fare under this plan.

Stock market corrections are said to be healthy on many fronts, although unsettling as well. Equity investors have been treated to unusually calm markets over the past several months, as volatility in share prices has been at record lows. Coinciding with this low volatility has been improving fundamentals in the global economy. Here in the U.S., earnings growth has been accelerating for large and small companies alike, and should continue. In addition: lower tax rates, a potentially large infrastructure bill, and the continued rollback of business regulations are expected tailwinds for Corporate America in the months ahead.