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After approximately 1,000 days of mostly unabated market appreciation, we are now experiencing a long overdue correction across many asset classes. This should not come as too much of a surprise, for looking back historically to 1980, the S&P 500 Index has recorded an average intra-year drop of over 14%. However, in the majority of those years the market finished in positive territory.

The following events are contributing to current volatility in global markets, and are exacting varying levels of disruption to asset prices:

- Ebola virus – many of us remember prior global health scares (SARS in 2003 and H1N1 influenza in 2009), and the concern these events created. What we know from the prior episodes is that risk aversion on the part of the general public becomes a prevalent mindset, and can lead to reduced economic activity. <u>We are all hoping that this health scare, like the ones before, will be transitory in nature</u>. While our government and health care officials have been criticized for their lack of preparedness at the onset, there is now a collective effort in place to manage the crisis on a go-forward basis.

- Deflation – falling prices have long been a concern for central bankers around the world, with current deflationary conditions in Europe particularly troubling. The risk with deflation is that falling prices discourage business investment and encourage consumers to hold off on purchases, leading to weakening economic growth and eventual job loss. Similar to the U.S. Federal Reserve, Europe targets 2% inflation, which is considered a “stable” increase in prices. <u>While the odds of deflation in most large economies is low, economists are growing increasingly concerned that a downward price spiral in Europe will come to fruition</u>. In response, Europe is embarking on an important round of monetary stimulus to promote economic growth and stave off deflation.

- International Challenges – there is a growing concern that economic weakness in Europe and Asia will be exported to the U.S. Tensions in the Middle East and Ukraine are also disconcerting, with the risk that the U.S. is drawn into another open-ended military engagement. While we are concerned about the overseas issues, we remain cautiously optimistic that America can re-assume (from China) its role as engine of the global economy. <u>We see the pillars of the U.S. economic recovery still intact, with the job market, housing, and corporate profitability all on decent footing</u>. Also, monetary policy around the world remains accommodative.