March 23, 2018

COLONY MARKET BRIEF

Equity markets have been lackluster of late and volatility has spiked over the last couple of days. The S&P 500 Index has declined about -4.5% over the last two trading sessions (Thursday and Friday), erasing its year-to-date gain. At today's close, the broad global equity market is now down about -3% so far in 2018. While market volatility is an expected byproduct of investing, we recognize that experiencing it can be uncomfortable. As long-term investors we seek to avoid the behavioral urge to overreact. Although we typically look through short-term volatility, we are reaching out here to provide some perspective on recent market action.

Multiple narratives have likely contributed to the recent declines, underscoring how the busy news cycle has rippled through markets. From the Wall Street Journal this morning, "It's a sharp reversal from last year, when stocks embarked on a nearly uninterrupted rally, despite a slew of geopolitical, economic and political news events that many analysts had expected to pull stocks lower. Whereas nothing seemed to phase the market in 2017, everything seems to be phasing it in 2018."

The most notable reason for the recent selloff was an announcement by the Trump administration that it would impose tariffs on about $50 billion of Chinese imports. That fueled worries that a trade war could escalate, which would likely undermine the recent phase of synchronized global economic growth. China did retaliate with its own set of levies on about $3 billion of U.S. goods, though it said it was readying further measures.

We'll continue to assess recent developments in order to determine any changes to our macro views and portfolio positioning. At this point, however, our base case assumptions include a continued modest global economic expansion accompanied by a modest increase in inflation and interest rates. This backdrop should remain supportive of equities and other risk assets—but valuations remain somewhat elevated. As you know, we've continued to maintain an elevated cash/short-term fixed income position as "dry powder" that we could put to work if recent volatility presents what we think are attractive investment opportunities.