In our view, the recent equity market sell-off does not reflect a change in the fundamental outlook. We believe the global economy is strong, with little sign of a looming recession or other fundamental dislocations.

- Economic growth, corporate fundamentals, and earnings growth remain strong and are improving. The market is instead reacting to a world with expectations of higher inflation and higher interest rates.
- The market was priced for a Goldilocks environment of modest global growth and low inflation and is now adjusting to a potential new reality.
- We believe we are now in a higher-growth world, and with that comes expectations for higher wages, higher inflation and higher interest rates.

Last week we saw the first evidence of inflation pressures with U.S. wage growth the highest in nine years. The market took notice and the equity and bond markets sold off.

We believe that the market is resetting itself for a new world where growth, inflation and rates move higher. What had become unsustainable was a continuation in the velocity of upward price action accompanied by unusually low volatility and investor complacency, particularly as an entire generation of investors had become accustomed to near-zero rates for nearly a decade.
We believe rates globally are moving up, and this will compress P/E ratios. Right now, earnings growth expectations for 2018 are very strong at 18%, and earnings are expected to come in at $156.5 for the S&P500. Nevertheless, the expectations for higher rates will likely work on market multiples and could remain a headwind to equity prices despite our constructive outlook.

Credit spreads have widened somewhat, but remain at low levels relative to history. At this point, there are not many signs of contagion to this asset class and, therefore, it is still premature to forecast a larger credit stress.

We believe the duration and severity of this correction should be limited thanks to strong economic and corporate fundamentals that are unchanged despite the recent downtrend in stock prices.