

## The Storm After The Calm

Regression to the Mean is a term that's regularly used by folks who refer to the tendency of various types of activity to return to what had historically been the normal range. What we witnessed in 2017 was extreme market stability accompanied by relatively steady and well above average gains.

Fast forward to the last couple of months, it's as if we've moved through the Looking Glass into a completely different world. Although last year there was nary a day when the leading market averages moved as much as 3%, it seems as if the current daily change is often well into triple digits. And so far, the net result of the hundreds of points up and down has ended up as not much change from where things stood on December 31st. Much ado about nothing.

Since it's well known that short-term market action is primarily determined by changes in investor psychology, Wall Street's rampup in excitement comes as no surprise. Here's why:

The Federal Reserve has a new chairman and regular quarterly interest rate hikes seem probable over the remainder of the year. From recent levels, that may not be problematical, but that view may change if the pattern of increases is protracted.

Then there's the ongoing merry-go-round of top advisors to the White House, a happenstance that raises concerns about potentially ominous directions ahead. From this naïve vantage point, it's difficult to discern how this maelstrom will settle down and become productive.

The good news is that corporate earnings continue to climb, enabling overall market valuations to ease a bit from their recently stretched levels. What's more, the rate of job growth continues at an impressive pace while the unemployment rate remains atypically low.

The wild card in the current equation is the possibility of a major geopolitical event. Between the continuing strife in the Middle East, the prospect of an upcoming meeting with North Korea, and further revisiting of the Iran deal, there are plenty of issues that will have to be dealt with carefully.