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Update from Mercer on Recent Market Volatility (as of November 26, 2018)

Since hitting a recent peak in September, global equity markets have experienced a decline of around 10%. Although the recent correction has created anxiety for investors, its magnitude is not particularly alarming from a historical perspective. In fact, stocks experience a market correction (defined as a loss of 10% or more) roughly every 24 months. The most recent decline is of similar magnitude to the corrections experienced in January/February of this year as well as those in 2016 and 2015. Since the recovery from the 2008 financial crisis began, there have been six market corrections in global equity markets.

There can be many simultaneous catalysts for a market sell-off making it difficult to identify a single cause. In the case of the current sell-off, the most likely culprits are 1) rising interest rates, 2) trade tensions, 3) potentially slowing Chinese growth, and 4) technical selling. Although, these are legitimate investor concerns, there is not sufficient evidence that any single factor was a cause for the sell-off, nor can the degree of each factor's magnitude be determined or its lasting effects known at this time. It remains that just as likely a factor is simply the culmination of investor fears that the longest running bull market in history is overheated and due for a correction and is the root cause of recent selling.

However, we do not believe the recent market action is a sign of a coming bear market. Bear markets are typically preceded by recessions. Further to this point, we do not see a recession on the horizon as several economic fundamentals are still in place to support a continued bull market. In general, although market valuations are elevated, fundamentals are favorable with economic and earnings growth remaining.

Nonetheless, we believe that given the increased level of uncertainty surrounding the aforementioned economic and geopolitical factors, one should expect higher volatility over the intermediate-term and we should be prepared for the potential for sharp drops from time to time. Additionally, expensive valuations suggest lower prospective returns. Overall, we continue to believe that investors should avoid overreacting to short-term market movements and maintain a long-term time horizon. Additionally, we think the best approach to navigating turbulent markets is through diversification.

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