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EQUITY PERSPECTIVES

Market Volatility: Four Important Perspectives

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Investors should focus on these critical facts about the current market, and how U.S. equity markets have responded to prior episodes of volatility.

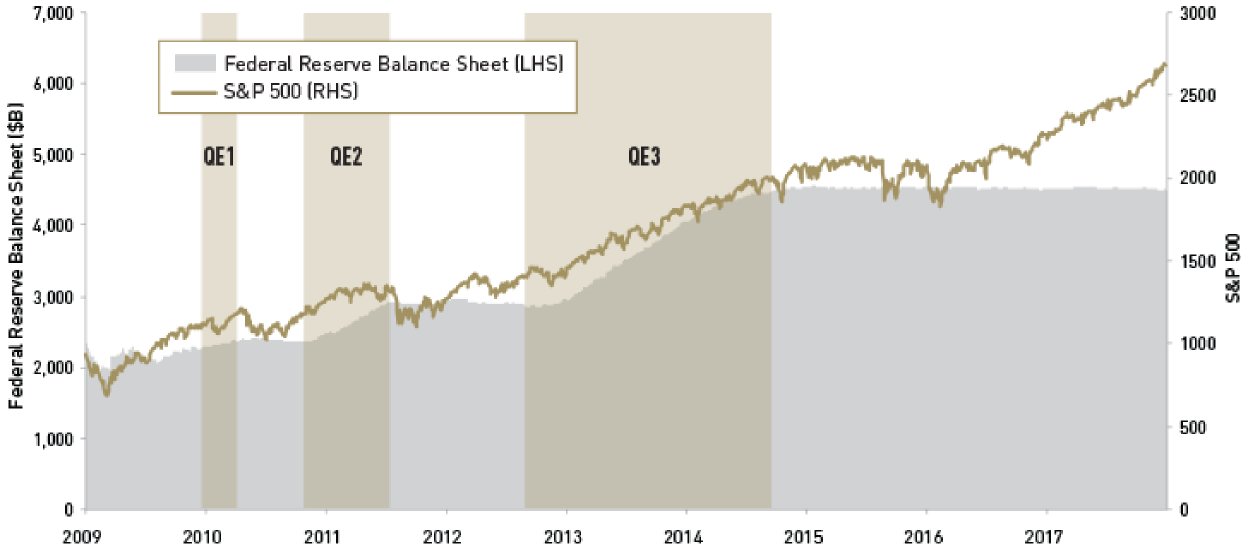
The resurgence of volatility in the U.S. equity markets over the past several days has sent traders and the financial media into a frenzy. Amid the ominous headlines and references to more severe market downturns in prior years, we think it is important for investors to remember four key facts about the U.S. equity market in order to avoid making hasty, emotional decisions.

1. The U.S. equity market is now driven by fundamentals—and fundamentals are strong.

In the years following the global financial crisis of 2008–09, much of the rebound in the U.S. equity market could be attributed to the stimulative effect of the U.S. Federal Reserve's (Fed) quantitative-easing programs. As illustrated in Chart 1, when the Fed's balance sheet expanded between 2009 and 2014, the equity market rose in conjunction. As quantitative easing came to an end in 2014, the equity market moved sideways for a nearly two-year period, as investors recalibrated their expectations for a new monetary-policy environment. In mid-2016, the equity market emerged from a year-long earnings recession, and stocks resumed their rally, powered by consistent growth in corporate earnings, completing the transition from a liquidity-driven to a bull market driven by fundamentals.

Chart 1. Fundamentals, Not the Fed, Have Driven the Market

U.S. Federal Reserve balance-sheet size (left axis) and price changes in the S&P 500 Index (right axis), January 2, 2009–December 31, 2017

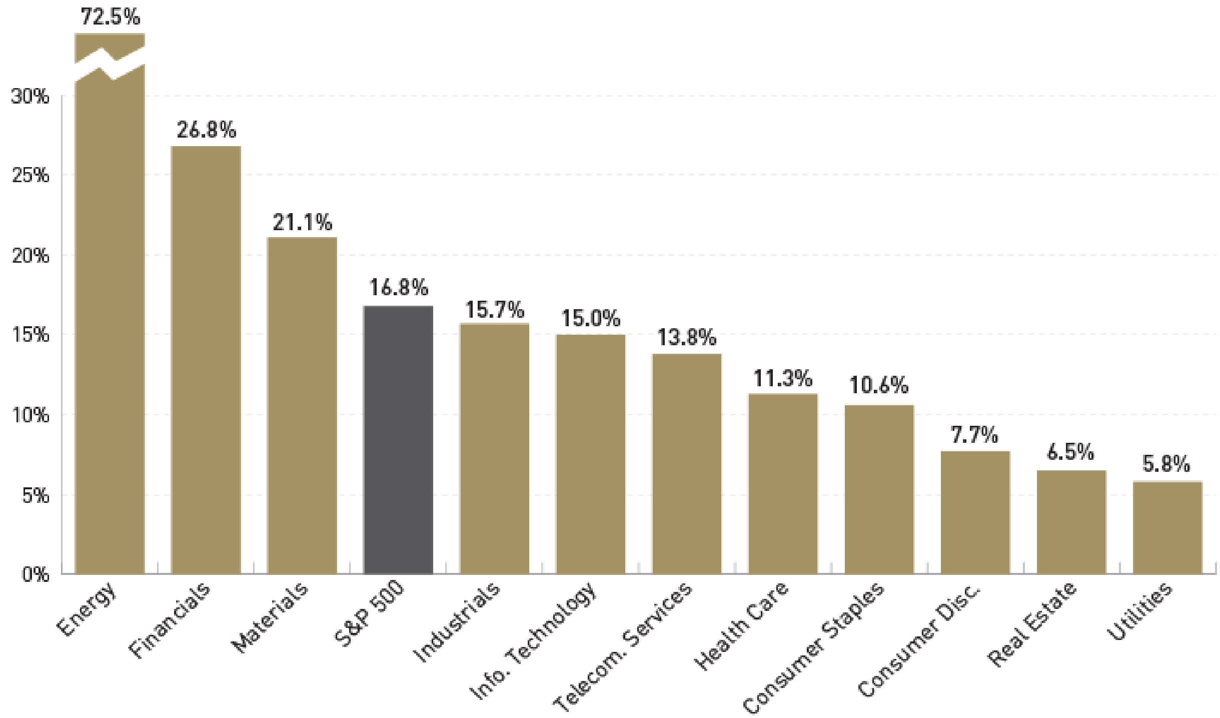


Source: Bloomberg and the U.S. Federal Reserve. For illustrative purposes only. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

For U.S. companies, 2018 is expected to be another year of strong fundamentals. According to FactSet, earnings for companies in the S&P 500® Index are expected to grow 16.8% in 2018, with increases forecast across all sectors of the market. These estimates continue to be revised upward, as the effects from tax reform and positive economic momentum around the globe filter down to companies' bottom lines.

Chart 2. Analysts Expect Solid Earnings Growth to Continue in 2018

Forecasted earnings growth for sectors in the S&P 500 Index for 2018



Source: FactSet. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. **Past performance is not a reliable indicator or guarantee of future results.**

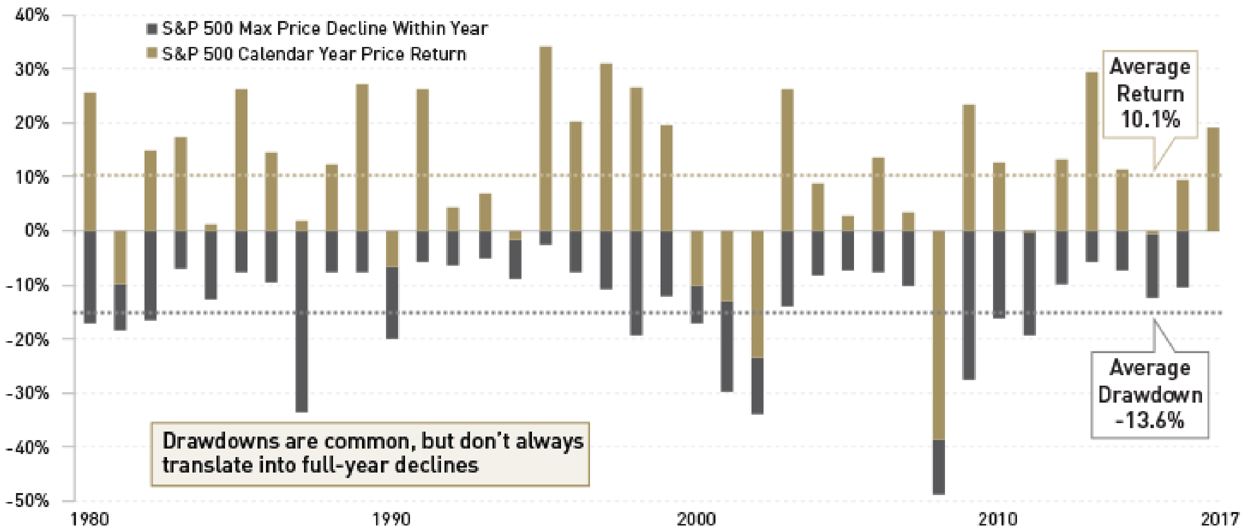
Forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

2. Drawdowns are common.

The recent price declines have been swift, and may seem particularly jolting to equity investors lulled by one of the most nonvolatile years on record. But short-term drawdowns are quite common in the equity market. In fact, the average calendar-year peak-to-trough decline in the S&P 500 is nearly 14%, as depicted in Chart 3. However, despite these drawdowns, the equity market historically has generated returns of 10% on average (since 1980), including positive returns in many of the years with a significant drawdown. In other words, though such outcomes are not guaranteed, patience historically has rewarded investors who stay the course of their investment goals.

Chart 3. Market Drawdowns Are Not Unusual

Annual price returns versus maximum price decline in the S&P 500 Index, 1980–2017



Source: Morningstar.

Note: The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

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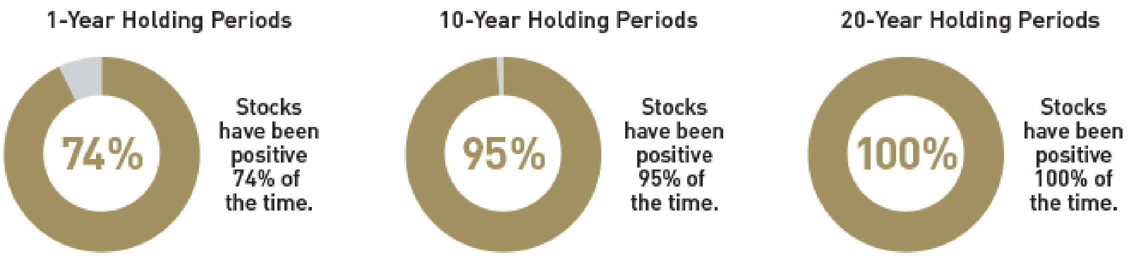
3. Long-term equity returns historically have been positive.

Historically, investors have benefited from taking a long-term perspective on their equity investments. While it can be easy to become emotionally swept up in the day-to-day movements of the market, equities historically have been a critical component for investors to reach their long-term growth objectives. In fact, since 1927, stocks have delivered positive returns in 95% of rolling 10-year holding periods, and have not lost money over any 20-year holding period.

Chart 4. Staying Invested Has Resulted in a Greater Chance of Positive Returns
Equity returns in calendar-year periods, 1927–2017



Source: Morningstar. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

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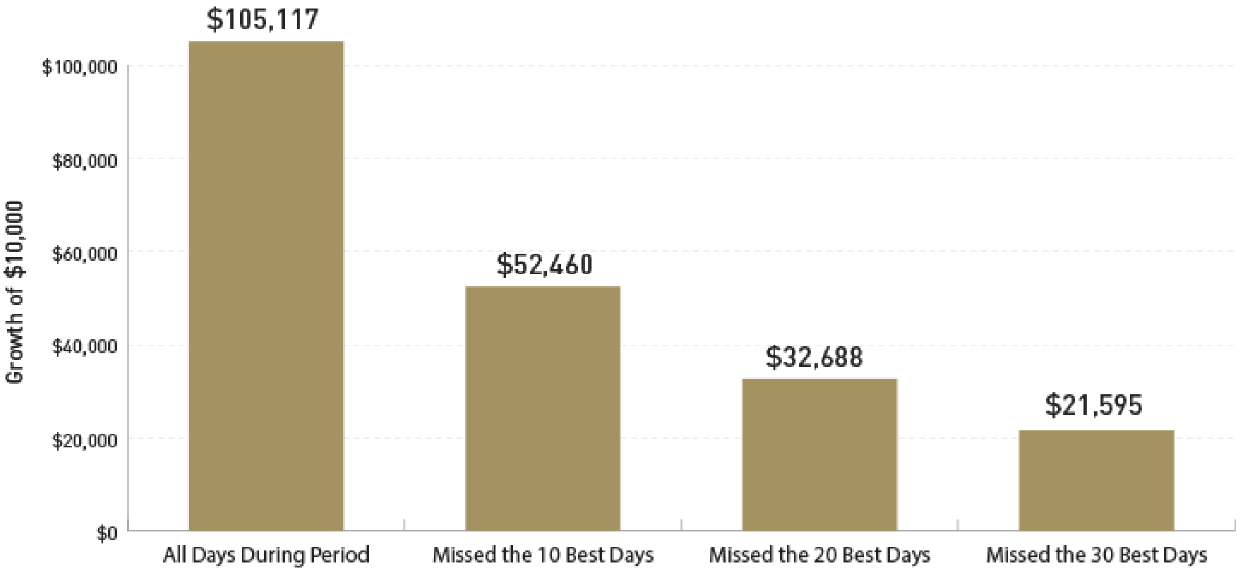
4. Market timing is a risky game.

Many investors may be familiar with Chart 5, which shows the risks of attempting to time the stock market. Over a 25-year time period—comprised of more than 6,000 trading days—missing just the 10 best days in the market cut in half an investor's returns.

Chart 5. Investors Who Didn't Stay in the Market Lost Out on Later Gains
Growth of $10,000 in the S&P 500 Index, January 1, 1992–December 31, 2017



Source: S&P Dow Jones Indices and Lord Abbett. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

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While it is impossible to predict when the next 10 best days in the market will be, history reveals that such days often occur when the urge to time the market may be strongest—such as shortly following one of the 10 worst days. In fact, six of the 10 best days occurred within five trading days (before or after) of one of the 10 worst days in the market.

Investors with the discipline to resist the impulse to "do something" after experiencing one of the market's worst days historically were rewarded with one of the market's best days on several occasions. Even absent a historically large one-day rebound, research from Morgan Stanley shows that following a one-day drawdown in the S&P 500 of between -3% and -6%, the market has, on average, advanced 10% over the subsequent 12 months, and has delivered positive returns over the next one-, three-, and six-month periods.

Table 1. Equities Historically Have Proven Resilient after Big Declines
For the years 1968-2017

S&P 500 Average Forward Performance After Daily Decline of -3% to -6%			
1 Month	3 Month	6 Month	12 Month
1%	3%	5%	10%

Source: Morgan Stanley. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

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What's the key takeaway from these observations? A steady resolve and a long-term perspective can help investors stay on track through this current bout of market volatility.

A Note about Risk: The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. While growth stocks are subject to the daily ups and downs of the stock market, their long-term potential as well as their volatility can be substantial. Value investing involves the risk that the market may not recognize that securities are undervalued, and they may not appreciate as anticipated. Smaller companies tend to be more volatile and less liquid than larger companies. Small cap companies may also have more limited product lines, markets, or financial resources and typically experience a higher risk of failure than large cap companies. The value of an investment in fixed-income securities will change as interest rates fluctuate and in response to market movements. As interest rates fall, the prices of debt securities tend to rise. As rates rise, prices tend to fall.

No investing strategy can overcome all market volatility or guarantee future results.

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Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that markets will perform in a similar manner under similar conditions in the future.

The **S&P 500® Index** is widely regarded as the standard for measuring large cap U.S. stock market performance and includes a representative sample of leading companies in leading industries.

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