

*“If something cannot go on forever, it will stop.” – Herbert Stein*

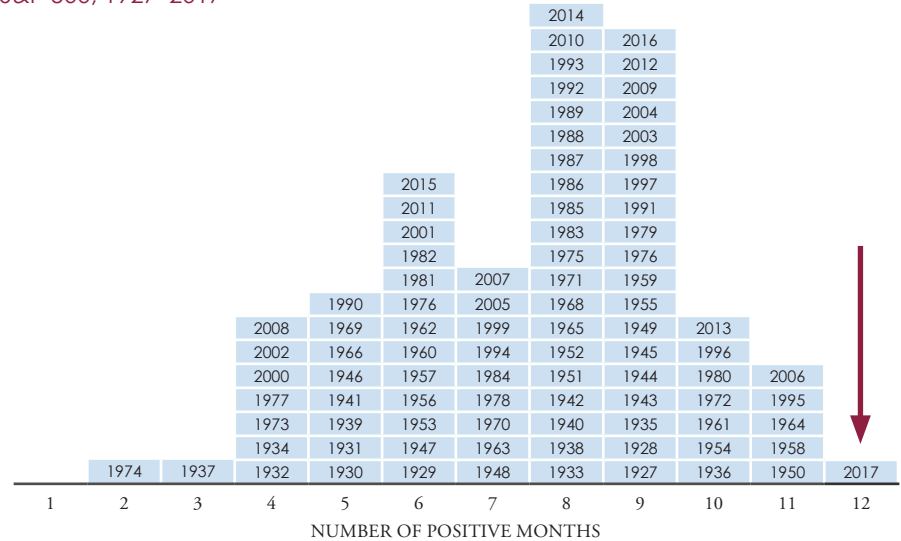
After enjoying a 5% gain during January, the stock market has tumbled thus far in February, giving back all of its 2018 gains. Market volatility has surged, with the Dow Jones Industrial Average swinging as much as 1500 points in a day, raising fears as to whether the long bull market of the past nine years is at an end.

Before addressing this question directly, it is worthwhile to put recent market trends into context. 2017 was the first year in history that the S&P 500 posted a positive total return in every month of the year. In fact, through last month, the S&P 500 had posted 15 consecutive months of positive total returns, for a cumulative gain over that period of 36.2%. This streak of unusual stability in the market is also shown by the historical lows posted by the VIX Index<sup>(1)</sup> in 2017.

One of the best-performing trades last year was betting that market volatility would continue to decline. Such a trade is better described as a “speculation” rather than an “investment,” but in any case, many hedge funds engaged in derivative investments designed to “short” volatility. The VelocityShares Daily Inverse VIX Short-Term ETN (say that fast three times) is an exchange-traded note that shorts volatility through futures contracts and is held by individual investors as well as presumably sophisticated institutions. While it was a winning speculation last year, this year it has been less so, as shown in the chart to the right (in fact it will be liquidated entirely later this month).

Expectations of continued consistently positive market monthly returns and continued declines in market volatility were unlikely to be realized,

**MONTHLY POSITIVE RETURNS BY CALENDAR YEAR**  
S&P 500, 1927–2017



Data as of 12/31/17  
Source: FactSet, Standard & Poor's

**DAILY VALUE OF THE VELOCITYSHARES DAILY INVERSE VIX SHORT TERM ETN**  
12/1/10–2/8/18



Source: Bloomberg

and they haven't been. As stocks have declined and volatility has risen, a feedback loop has developed where selling has led to more selling. This has resulted in the huge daily swings in market averages that we've experienced over the past week.

While this volatility has understandably raised investor anxiety, it's done little if anything to dampen good market fundamentals. Thus far this year, roughly 80% of the companies in the S&P 500 that have reported 4Q17 earnings reported revenues that beat

<sup>(1)</sup>VIX is a market volatility index developed by the CBOE (Chicago Board Options Exchange).

Wall Street expectations, the highest percentage of positive surprises since 2008. Revenues for S&P 500 companies have now grown for six consecutive quarters, driven by higher consumer spending, low unemployment and strong manufacturing output. Importantly, current earnings reports do not reflect recent tax overhaul legislation, which reduces corporate tax rates from 35% to 21%. These lower tax rates will start to affect earnings and cash flow for companies later this year, adding further momentum to an

already positive earnings environment. Ironically, after years of a sub-par economic recovery that disappointed many investors, current signs of stronger growth are leading to investor concerns about the economy actually overheating, leading to higher interest rates that would choke off the recovery. While a spike in interest rates would clearly be a threat to the stock market, as long as future increases are moderate, we believe that stocks can likely withstand higher rates.

None of this is to suggest that the days of exceptionally low volatility that we experienced in 2017 are likely to return. The stock market will have occasional months and even years of negative returns in the future, just as it always has had in the past. Investors should have a long-term time horizon in order to withstand the inherent volatility of investing in stocks. However, those long-term investors should continue to benefit from stock investments in the years ahead.

---

## DISCLOSURES

---

The preceding Market Outlook reflects the thoughts of Renaissance as of February 2018. This information has been provided by Renaissance Investment Management. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. The views and opinions expressed are those of the portfolio manager at the time of publication and are subject to change. There is no guarantee that these views will come to pass. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing.

### Performance

If Renaissance or benchmark performance is shown, it represents historically achieved results, and is no guarantee of future performance. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the benchmark or Renaissance performance shown and the actual performance results achieved by any particular client. Benchmark results are shown for comparison purposes only. The benchmark presented represents unmanaged portfolios whose characteristics differ from the composite portfolios; however, they tend to represent the investment environment existing during the time periods shown. The benchmark cannot be invested in directly. The returns of the benchmark do not include any transaction costs, management fees or other costs. The holdings of the client portfolios in our composites may differ significantly from the securities that comprise the benchmark shown. The benchmark has been selected to represent what Renaissance believes is an appropriate benchmark with which to compare the composite performance.

The value of an investment may fall as well as rise. Please note that different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client or prospective client's investment portfolio. Investor principal is not guaranteed and investors may not receive the full amount of their investment at the time of sale if asset values have fallen. No assurance can be given that an investor will not lose invested capital. Consultants supplied with these performance results are advised to use this data in accordance with SEC guidelines. The actual performance achieved by a client portfolio may be affected by a variety of factors, including the initial balance of the account, the timing and amount of any additions to or withdrawals from the portfolio, changes made to the account to reflect the specific investment needs or preferences of the client, durations and timing of participation as a RIM client, and a client portfolio's risk tolerance, investment objectives, and investment time horizon. All investments carry a certain degree of risk, including the loss of principal and are not guaranteed by the U.S. government. Corporation, and reflects reinvestment of all dividends and capital gains.

### S&P Data

S&P is the source and owner of the trademarks, service marks and copyrights related to the S&P Indexes. S&P® is a trademark of S&P. This presentation may contain proprietary S&P data and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a presentation of Renaissance Investment Management. S&P is not responsible for the formatting or configuration of this material or for any inaccuracy in Renaissance's presentation thereof. This data is to be used for the recipient's internal use only.