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Global Economics and Market Volatility

Through ups and downs in the United States and around the globe, Financial Engines continues to keep an eye on the markets.

The fourth quarter started with a strong upturn in equity markets. The S&P 500 gained 10.9% in the month of October, reversing previous losses. However, volatility remains high and trading has been choppy through the first few weeks of November. There are at least three major issues contributing to the higher than normal volatility:

- **The European debt crisis.** While the concerns around the Greek debt deal are settling down, there is increasing concern about the ability of larger countries such as Italy and Spain to manage their debt load. European leaders are struggling to come up with a plan that will restore market confidence. When considering your exposure to international investments, keep in mind that future market returns will depend on whether things get better or worse than expected. Markets already reflect a great deal of negative news about the implications of the debt crisis. International equity (including Europe) remains an important part of a diversified portfolio.
- **Uncertainty about the pace of U.S. growth.** So far, the recovery from the recession induced by the financial crisis has been painfully slow. While Q3 growth was better than expected and corporate earnings and consumer spending have been generally strong, concerns remain about how fast the economy will grow in 2012.
- **Congressional deficit reduction “super committee.”** The committee did not reach an agreement by the November 23 deadline. The uncertainty induced by the political deadlock continues to increase market volatility. However, the longer-term stakes for missing the deadline are unclear, as automatic budget cuts beginning in 2013 will kick in since the committee cannot reach a consensus. It remains unclear how the political process will work from here as Congress wrestles with the implications of the automatic spending cuts.

These events, and others, could affect markets in the short term (in either the positive or negative direction). However, during times of high volatility it is important to maintain a long-term perspective. The critical task is to focus on your future forecast and how it relates to your goals. As market conditions change, Financial Engines can help make sure your account stays well diversified and maintains an appropriate risk level.

As always, our Advisor Representatives are here to help if you have questions. Call us at (800) 601-5957 business days, 9 a.m. to 9 p.m. eastern time.