__The Return of Volatility__•"Maybe it's because of the experience of the last month and because we tend to read the latest trend into our forecast, but there was a consensus at SIC that market volatility is going to resume its normal place in our lives. Five percent drawdowns are actually quite normal in any given year and sometimes occur several times in a year. What is not normal is 15 months of less-than-2% drawdowns, which we just experienced. The volatility of February was not the odd thing; it was the preceding 15 months that was extraordinary. Have we seen a market peak, as my friend Doug Kass thinks? Maybe. I have no idea. That is why I have my personal portfolio and those of the clients who work with me structured to be in diversified trading strategies and not be actually long (or short) everything. And then we rifle-target specific investments that I think have long-term potential or can produce reasonable fixed-income returns."• John Mauldin,•SIC Perspectives•

In my Bloomberg *"Market Surveillance"* interview on Thursday with Tom Keene and Jon Ferro I suggested that there is an increased probability that the S&P Index has peaked for the year. Here are my **Top 10 Reasons** why the markets may have already peaked in 2018:

> * ***A Presidency of One:***•*Trump's behavior may finally matter to the capital markets as the Administration's disorganization, revolving door and impulsive policy actions may soon intersect with market valuations. * **The Outcome of the Mueller Investigation Could Be Market Unfriendly •* A Blue Wave in the Mid-Term Elections Could Also Be Disruptive to the Markets and the Trump Agenda * The Expectations of a Synchronized Global Economic Recovery May Be Wrong**:•Though many are focused on the big upside reported in last Friday's jobs market -- I would emphasize that employment data is a notoriously rear view or lagging economic indicator.• Recently the Atlanta Fed said its GDP model sees 1Q2018 Real GDP at only +1.9% (and JPMorgan has moved down their estimate to +2%) -- that's fairly disappointing considering we have been in a respend and rebuilding period following the hurricanes and we are now nearly three months post the passage of meaningful corporate tax cuts. Several high frequency economic data points now suggest that the much anticipated acceleration in the rate of US economic growth may disappoint investors. And, even in the EU, several economic prints have stumbled recently. * **Global Central Bankers are Pivoting Towards Tighter Money:** In marked contrast to the last nine years, the Fed is no longer our friend.•* **The US Lacks Fiscal Discipline**: The recently enacted tax bill will exacerbate risks associated with a rising debt load and expanding fiscal deficit. The Fed's $4 trillion balance sheet is problematic and $2 to $3 trillion of newly issued Treasuries will likely place pressure on interest rates. *** Inflation Pressures Are Building and Interest Rates are Heading Higher**•On rates, few appreciate that it took only a thirty basis points increase in the ten year US note to blow up a trillion dollar global short volatility trade.• And, from Peter Boockvar this morning: "Another 2.4 bps rise in 3 month LIBOR on Friday to 2.20% brings the year to date gain to 50 bps. It is now up•105 bps over the past 12 months which of course is greater than the pace of Fed rate hikes and thus the LIBOR/OIS spread keeps widening. It's been a topic of discussion for the past month but regardless of what's causing it, the impact grows on the trillions of dollars of LIBOR based loans." * **Trade Wars Seem More Likely - Threatening World Trade**: Recent policy moves force us to unfavorably answer question, "Am I a Clever Man (Westley) or a Fool (Vizzini)?"**• * With Their Growing Dominance, Facebook** (FB) **, Alphabet's Google** (GOOGL) **and Amazon** (AMZN)*
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> ***Face the Existential Threat of Regulations and More Legislation***:*• FANG is the center piece of the decade old Bull Market. For one year I have been fearful of their increased market dominance and horizontal acquisition strategy which is disrupting industry after industry - and having a consequential impact on those industries, their employees and, even the real estate markets.•* **Expanding Individual Investor Optimism:** Recent fund flows are at record levels - often seen as a contrarian and bearish signpost. From Barron's over the past weekend (H/T Randy Forsyth): "Following the stock market's brief but violent drop in February, investors came roaring back with record purchases of equity funds in the most recent week ended on Wednesday. According to EPFR data cited by Bank of America Merrill Lynch, some $38.3 billion was poured into mutual funds, including the exchange-traded variety."•*

Bottom Line

Based on the above, and other factors, I am currently net short and expect heightened volatility and a widening trading range in 2018. The S&P Index is currently at 2740. I expect a 2018 trading range of 2200-2850 - with a *"fair market value" (based on higher interest rates, disappointing economic and corporate profit growth, political and geopolitical uncertainties)* of approximately

2400. Compared to the expected trading range, downside risk relative to upside reward is approximately 5x. Against "*fair market value*" *(based on my probability distribution of a host of independent variables - interest rates, inflation, corporate profits, economic growth, valuations, etc.)*
•downside risk relative to upside reward is about 3x.