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# UPDATE

SPRING 2018

## ECONOMIC REVIEW

Last month we detailed the unprecedented stock market run of 2017 and early 2018 and raised cautions about the inevitable reversals that are part of long-term stock investing. Some of this volatility emerged in late January, but the month was still strongly positive. February was a better demonstration of this two-way street, as the market worked its way downward through the end of the month, finishing with the S&P 500® Index down -3.7%, although the year-to-date return remained positive at 1.8%.

Unlike some market corrections (officially a loss of 10% or more, a mark hit by the Dow Jones Industrial Average during the month), this month's loss was not triggered by a major event or stunning economic news. Instead, it was centered on slowly building concerns, primarily around the rise of interest rates and the pressure this historically puts on the price-to-earnings ratio. After a long period of below-historic rates, the 10-year Treasury hit a low of 1.4% in mid-2016. Over the course of 2017 we began to see upside projections of a 3% 10-year Treasury. With scarcely a breath, over the past few weeks the prospect of a 3% 10-year Treasury has neared reality as the 10-year pushed to 2.9%, with the prospect of rates continuing higher throughout 2018. Not surprisingly, interest-rate sensitive sectors led the decline in February, while Technology, Consumer Discretionary and Financials showed relative strength. While the Federal Reserve (Fed)

has been resolute in its projection of gradual rate increases, the change in leadership at the Fed from Janet Yellen to Jerome Powell added an element of uncertainty.

Some of the market volatility could certainly be blamed more on speculation than fundamentals, as investors, largely institutional and hedge funds, had built unprecedented exposure to derivatives based on the CBOE Volatility Index (VIX), which is sometimes referred to as the market's "fear index." It moves in response to the expectations of future volatility. Leveraged positions assuming continued low volatility in the market had been a source of strong returns in 2017. In February the worm turned as the value of these instruments plummeted when volatility increased, sending out shock waves that upset the normal order of market activity as the bulk of these positions were unwound with major losses. Whatever the ultimate cause, February's returns struck us as a healthy venting of some of the built up pressure in the market. Valuations remain in the upper level of historic ranges, but the prospects for corporate earnings seems to justify these levels. We believe that the market can withstand a modest and steady rise in interest rates. However, should we break through expected levels, investors are likely to begin shifting assets towards the rising attractions of the bond market, especially given the stress this would place on equity valuations. ▀

## NEWS YOU CAN USE

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### Prospectus Update

In March, a summary prospectus was mailed to your household with updated information on the fund(s) you own. The summary prospectus contains the fund's investment objective and principal investment strategies, fees and expense, and historical return information. We encourage you to review the document(s) so you understand your investment. The Madison Funds statutory prospectus, statement of additional information (SAI) and annual report are available online at [madisonfunds.com](http://madisonfunds.com). You may also obtain printed copies of these documents at no cost by calling Shareholder Services at 1-800-877-6089, Monday through Friday from 8 a.m. to 7 p.m. Central time.

### Electronic Delivery of Disclosure Documents & Reports

For many of you, we offer the ability to consent to suppress paper copies of the Funds required disclosure documents, for instance the prospectus summary which was just mailed. "Consenting" to electronic delivery will provide you with fund information faster and should reduce fund expenses, which benefits all shareholders.

To enroll, log on to Account Access at [www.madisonfunds.com](http://www.madisonfunds.com) and click on "Electronic Delivery Options". An email notification will be sent to the email address you provide when a new report is made available. The email will contain a link to view, print and save the documents electronically. If at any time you wish to change your consent options, you simply log on to your account and withdraw your consent. Thereafter, the next available document will be mailed to you free of charge.


### Tax Forms

Madison Funds tax forms for 2017 (1099-Div, R and B) have been mailed. You can view your tax information online by logging into your account via Account Access at [madisonfunds.com](http://madisonfunds.com).

If you did not receive a tax form you expected, contact Shareholder Services and they will be able to confirm the tax forms that were mailed to you and provide you the data you need to file your returns.

Also a reminder that the fair market value statement for education savings accounts (Form 5498-ESA) and individual retirement accounts (Form 5498) are mailed in late April and early May, respectively. The form reports contributions made to the account through April 17, 2018 for the 2017 tax year and the fair market value of the account. This information is furnished to the Internal Revenue Service and the form should be kept for your record.

### Individual Retirement and Education Savings Accounts Prior Year Contributions

You have until April 18, 2018 to make 2017 contributions to your Traditional or Roth individual retirement accounts (IRA) and Education Savings accounts. Contribution limits for 2017 are up to \$5,500 for IRAs and \$2,000 for education savings accounts. Please consult with your tax adviser or financial advisor as IRA contribution limits phase-out with higher income levels, and for individuals who are age 50 and over there are "special catch-up" contribution rules for IRAs. 

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Nothing contained herein is or intended to be a recommendation to buy or sell any security nor is it intended to represent the performance of any Madison Fund or product. An investment cannot be made directly into an index. Past performance is no guarantee of future results.

Bonds are subject to certain risks including interest rate risk, credit risk and inflation risk. Equity risk is the risk that securities will fluctuate in value due to general market or economic conditions.

Consider the investment objectives, risks, and charges and expenses of Madison Funds carefully before investing. Each fund's prospectus contains this and other information about the fund. Call 800.877.6089 or visit [madisonfunds.com](http://madisonfunds.com) to obtain a prospectus and read it carefully before investing.

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