Global Financial
Private Capital

SPECIAL REPORT: Perspectives on the Recent Market Volatility

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20180207-421463-1334580

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FEBRUARY 7, 2018

Following are some key points on what drove the recent stock market volatility:

- Part of the reason for the current volatility in the stock market is the prospect that the Federal Reserve – the central bank of the United States – could potentially raise U.S. interest rates as many as four times this year. This would effectively slow the flow of money, since higher interest rates make it more expensive for individuals and companies to borrow money.
- At the same time, the bond market has seen rising yields since 10-year U.S. Treasury notes hit a low point in July 2016, mainly due to investors being increasingly concerned about inflation. Rising yields are traditionally seen as negative for stocks as they increase companies' borrowing costs.

Let's refocus on the facts:

- Investors have enjoyed two years' worth of returns in a span of just three or four weeks. Those are not sustainable price moves, so this kind of volatility is normal and should not come as a surprise to investors. It is also important to note that the volatility index (VIX)*, which is a popular measure of the stock market's expectation of 30-day volatility, has been running well below normal and, like a compressed spring, it could abruptly return.
- To speak to the larger point, market returns are typically driven largely by corporate earnings and broad economic growth. Global growth continues to be strong, while companies around the globe have reported strong results in their most recent earnings reports.
- Monday's 'sell-off' does not change this fact; we expect strong earnings growth to continue, and anticipate that the Federal Reserve and other central banks around the world will be careful to avoid raising interest rates to the point where they hinder further economic growth.

**VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.*