Volatility? No Surprise—and Not so Volatile

June 2020

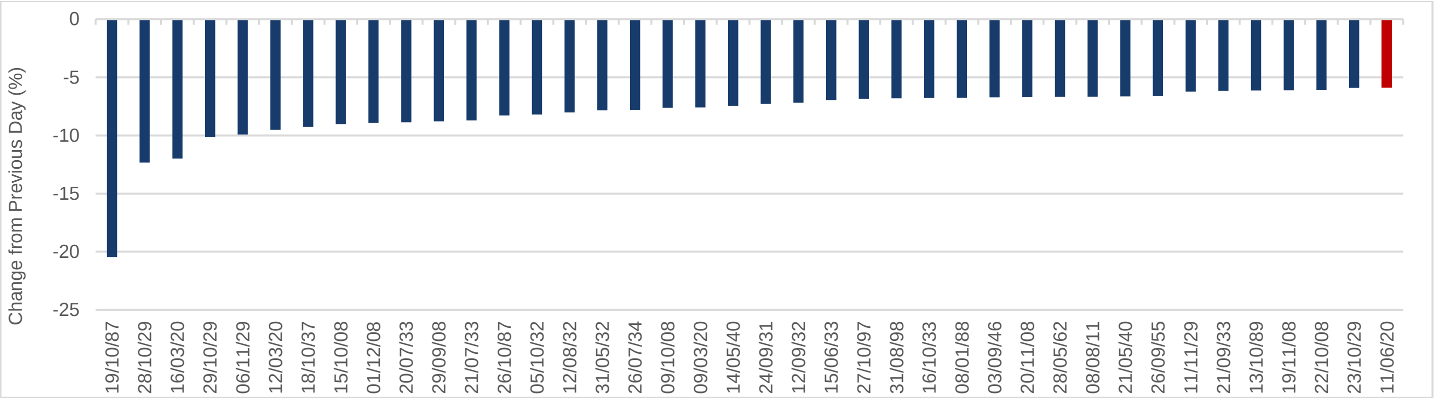
- On 11 June, US equity markets fell sharply, with the declines in excess of 5% for the S&P 500 Index and Dow Jones Industrial Average.
- While notable, the magnitude of these moves is rather ordinary and can be expected to occur throughout a long-term investor's timeline.
- When current conditions are taken into account, they are no surprise either.

US equity market indexes plunged on 11 June 2020, with the NASDAQ Composite Index dropping by more than 5%, the S&P 500 Index down nearly 6% and the Dow Jones Industrial Average off by almost 7%. Large daily swings can take a toll on investor confidence, particularly to those lulled by the relatively low volatility over the past decade, but in the grand scheme of things, declines of this nature can be expected to occur throughout a long-term investor's timeline.

Not so Big

When we look at daily percentage declines in the S&P 500 Index, the decline on 11 June ranks as the 40th largest daily percentage decline since 1928.

Largest Daily % Declines in the S&P 500



Data as at 11/6/2020. Source: Ned Davis Research, S&P, SEI. Data are computed from the S&P 500 Index since 1957 and S&P 90 Index from 1926 to 1957. Data before 1926 are from Cowles and associates, interpolated by Professor Robert Shiller from annual data. Index returns are for illustrative purposes only and do not represent actual fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance is not a reliable indicator of future results.

Not Unexpected

Swift, steep downside moves in the market are rarely welcomed by investors, but there have been signs that:

- The recent market rally from the March 2020 lows has also been swift and steep, but nobody complains when markets are moving up. Directionality aside, volatility is volatility. It goes both ways.
- We have been stating for some time that a pullback would come as no surprise, as US equity prices have come so far, so fast and perhaps have gotten ahead of themselves.

- Economic conditions in the US presently include shockingly high levels of unemployment.[1] And the Federal Reserve just announced that some of those job losses are likely permanent.
- The COVID-19 pandemic continues across the world.
- Social unrest is a global phenomenon.
- The world's largest economies (the US and China) are engaging in escalating trade disputes.

Not Unusual

While declines of 5% feel huge on the day they happen, they have happened a lot lately. In 2020, there have been three days (all in March) when the decline was even steeper:

S&P 500 Moves Lower

- 16 March: -11.98%
- 12 March: -9.51%
- 9 March: -7.60%

In 2008, there were seven days when the decline was steeper. The largest daily drop on record (-20.46%) occurred on 19 October 1987.

Source: Bloomberg, SEI. Past performance is not a reliable indicator of future results.

Our View

Despite the stomach-churning feeling that big market declines can induce, we suspect (based on futures prices) that some of this latest decline will be erased by the time you read this paper. Or maybe not. Short-term market movements are unpredictable—which is why we remain firmly committed to long-term investing strategies. It's just too uncertain, too exhausting and likely too unsuccessful to bet your future on short-term market movements.

[1] Source: US Bureau of Labor Statistics

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