Commentary

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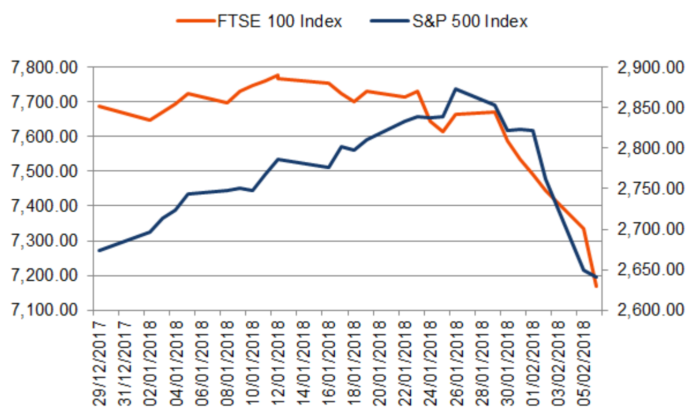
Stock Prices Slide as Market Volatility Returns

By: Kevin Barr, Head of SEI Investment Management Unit

- The extended period of calm for equity markets in recent years has come to a halt, pulling global markets lower.
- While declines can be disconcerting, they are a normal development in the course of market movements.
- The volatility serves as a reminder of the value of focusing on achieving goals rather than on daily stock price movements.

January ended with a moderate decline in the FTSE 1000 Index that quickly became a rout in February as volatility returned with a vengeance. A decline in the US served as a catalyst to push global markets lower. Exhibit 1 tracks the drop.

Exhibit 1: The World Falls in Lockstep



Source: Bloomberg

The declines have put many investors on edge. While economists and professional investors debate whether this is merely a short pause in the market's long upward trajectory or the beginning of an extended downturn, investors worry about losses in their portfolios. We have said for some time that a market pullback in the US would not be unexpected given the tremendous gains in stock prices in recent years. We do not think the pullback indicates risk of a US recession nor do we think it heralds a fundamental change in the global economy. It is also important to view the decline from the proper perspective.

Down but Hardly Record-Breaking

Despite the intense media focus on the size and speed of the decline, the pullback is rather unremarkable in terms of its actual size. Exhibit 2 puts the numbers in perspective.

Exhibit 2: A Fairly Typical Slide

	S&P 500	FTSE 100
From peak*	-7.80%	-5.70%
Monday** 1-day	-4.10%	-1.46%
Monday** 1-week	-7.17%	-4.39%
YTD	-0.92%	-4.59%

*S&P 500 peak 26/01/18
*FTSE 100 peak 12/01/18
**05/02/2018

Source: Bloomberg. As at 05/02/2018
(Performance data in local currency)

What's Moving the Market?

Following an extended period in which the US Federal Reserve (Fed) supported economic recovery by maintaining historically low benchmark interest rates, the US economy and most major economies around the world have regained strength and the labour market has tightened to levels consistent with full employment. The introduction of tax cuts, coupled with increasing wage gains, raised concerns over higher inflation expectations and the possibility that the Fed would be forced to raise interest rates more quickly than expected—causing the first notable market contraction in US markets in about two years to take place on Friday, February 2. The selloff continued on Monday, February 5, erasing year-to-date gains for major equity indices across the globe.

Our View

Investors have enjoyed a long period of relative calm in financial markets, making the return of market volatility an unwelcomed interruption. Although volatility can be unsettling, we've seen it before. Market movements of 2% or more have been frequent occurrences at various periods in the past, and declines of 10% or more have historically occurred about every two years.

US corrections generally last around three months and, despite their regularity, the average annual return for the S&P 500 Index over the last 50 years has been 10.05% in US dollar terms (as of 31/12/2017)[1]. Whether or not the current decline will become a correction is anyone's guess.

Predicting the direction of short-term market movements is, at best, more art than science. In our view, putting energy into developing and maintaining an investment plan that is designed to help you achieve your goals within a timeframe and level of risk of your choosing is a more prudent approach. This is the foundation of SEI's goals-based investment strategy. The objective is to create diversified portfolios designed to provide more consistent returns over time.

[1]Source: Professor Aswath Damoradan, NYU Stern School, http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html

Index Standardised Returns

	1 year to 31-Dec-17	1 year to 31-Dec-16	1 year to 31-Dec-15	1 year to 31-Dec-14	1 year to 31-Dec-13
S&P 500 Index (USD)	21.83%	11.96%	1.38%	13.69%	32.39%
FTSE 100 Index (GBP)	11.95%	19.07%	-1.32%	0.74%	18.66%

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