

Volatility Returns to Markets - What Happened?

A long period of calm markets ended this week with share markets in the US, Australia and around the world falling dramatically. At the lowest point US stock index, the Dow Jones Industrial Index, was down 1597 points, a 6.4% fall. By the close of the market on Monday the US market had reversed more than all the gains since the start of the year. With the US the biggest share market by a large margin, global markets are heavily impacted by the US, so it wasn't surprising that Australian shares followed suit with share prices falling across all sectors. Since then markets have shown some signs of stabilizing.

So what happened? January 2018 was a time of record inflows into global share markets with investors pushing many sought-after assets into 'overbought' territory. This meant the market was vulnerable to any real or perceived bad news. The US released some key jobs data last Friday which showed that wages were growing at a faster pace than expected. This meant investors feared the US Federal Reserve (The Fed) may raise interest rates far more quickly than anticipated. Raising interest rates are typically a negative outcome for shares as investors worry about the outlook for the economy and company earnings, typically preferring cash and bonds.

Putting the Market Fall in Context

2017 was not an ordinary year. The S&P 500, a US price index, returned 19.42% and had been within 3% of an all-time high for an incredible 202 straight days due to abnormally low volatility. This is almost twice as long as the second longest streak which occurred from 1995 to 1996. Periods of such calm are bound to end at some point, but it's awfully difficult to know just when.

5 Year Chart of S&P 500 (not including income)



Source: Iress as at 6/02/18

A Focus on Fundamentals

As always, it's important to focus on market fundamentals. The economic and earnings backdrop is still very strong around the world and monetary policy remains easy, both supportive of share markets.

Risk and uncertainty are part of investing which is why we put your strategy in place to help you towards your goals. While the reasons for market volatility will always be different, history has shown that markets generally return to a calmer state after periods of turbulence. I'm here to support you so if you have any concerns about the points above please call the office on 02 6056 8777.

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