08.24.21 I INVESTMENT MANAGEMENT

Breaking News…There is NO VOLATILITY…(for now)

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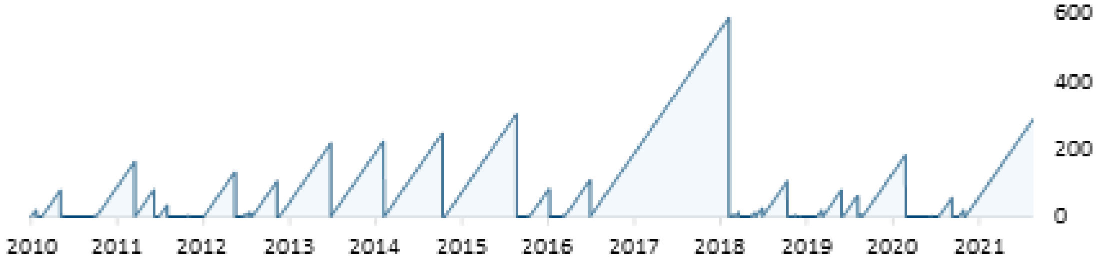
I read the following line in the Wall Street Journal this morning (8/20/2021), *"US equities on track for one of the biggest weekly pullbacks of 2021, with all of the major indexes off more than 1%. Risk-off this week driven by several different factors, particularly the pickup in growth concerns surrounding the spread of the Delta variant."*

So, a 1% weekly move is now newsworthy? In normal times *daily* moves of 1% are the norm. We created a chart depicting declines of over 5% and measuring the duration of those moves (see Chart below). Since the Global Financial Crisis, the current streak is second only to 2017.

S&P 500(TR) – $100,000 Invested 01/01/2010
(Source: Orion)



S&P 500(TR) – Number of consecutive days since 5.00 % Drawdown
(Source: Orion)

It is "normal" to experience three separate declines of 5% or more and one decline of 10% or more per year on average since 1950. We have not had a 5% decline since November 2020! By the way, the S&P 500 has advanced 38% since the last 5% decline and has doubled since March 2020 – the fastest market doubling in the post-WWII era. It sounds like I need to write an addendum to *"The year of unrelenting superlatives: 2020 was the most "est" year ever! "*.

Earlier this year I thought that by the third or fourth quarter the markets would be focused on booming economic growth versus inflation with the specter of faster-than-expected Fed tightening leading to higher levels of market volatility. We wrote about this earlier in the year in this blog, "Dry Powder versus Powder Keg". This is not happening (yet), and one reason could be the Delta variant. The Delta variant is magnifying COVID concerns, especially in less developed countries that are key players to the global supply chains. Supply chain disruptions cast BOTH inflation measures AND growth estimates into doubt thus giving the Fed a relevant excuse to slow play the tightening of monetary policy. Perversely, this added COVID wrinkle could actually be reducing volatility for markets, at least for now. Inflation worries can simply be ignored and labeled "transitory." Growth is strong but not overwhelming, and we can all just sit back and enjoy the wonderful earnings reports (S&P 500 is on track for the best quarterly earnings report since 2009 with 88% of companies beating estimates according to CNBC). As discussed in "The Big Picture – COVID is here to stay, but will be easier to live with", we anticipate the supply chains to be mended over the coming months and quarters and the specter of COVID variants to fade over time. Tighter monetary policy will likely be a headwind for markets at some point, and while it is delayed and drawn out, it is coming. Could a decline in variant concerns actually lead to a period of higher volatility? One thing is for sure, volatility cannot go much lower.