Chris Hyzy on Market Volatility

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Since this bull market is almost 10 years old and information noise is at sky-high levels-particularly when the noise at this point is around trade, which is a primary driver of global economic growth, as well as interest rates, which helps determine the price of capital and assets in general. It is quite natural to expect rolling concerns. We think the concerns are healthy to keep in mind the further we travel through this cycle, but we do feel it is too premature, at this point, to suggest the cycle is ending and a recession is around the corner in 2018.

Now once again, we've experienced further negative volatility in recent days with the major market averages close to retesting their February lows. The latest concerns are more of the same. Further potential imposition of tariffs on China, this time totaling close to $100 if not just over $100 billion. Retaliatory trade measures back from China on some of America's strategic exports and now once again, more hawkish interest rate policy comments.

As a result, short-term market participants are nervous and have been reacting to the saber rattling. Long-term investors have been subtly moving to the sidelines or simply staying on the sidelines. We have seen this most recently in the equity flow trends that were announced this week.

Give these concerns, what's our view?

We still expect elevated volatility to remain in the coming weeks and perhaps through mid-year. Volatility can also spike intraday given the news of the day.

Secondly, uncertainty on trade and interest rate policy should also remain. The North American Free Trade Agreement and China negotiations with the United States should continue through May and into June.

Bond yields should stay stuck in a range and equity prices in our opinion are still trying to find a bottom as economic and market fundamentals ultimately provide that catalyst to reestablish the equity market trend. And finally, 3 Ps are important to keep in mind. Number 1, profits. 2, policy, and 3, positioning. These should all continue to take their turn on what matters most to investors throughout the rest of 2018. Now in our view, strong profits are needed. A clear and stable interest rate policy is also needed, particularly as it relates to tame wage inflation and a de-escalation is needed in the trade equation to change investor sentiment for the better and again, reestablish that equity uptrend we experienced at the beginning of the year.

In summary, in bull markets that are in their late stage environments, market bottoms traditionally take a few months to occur. Right now, we believe we are currently in that process, which is about eight to nine weeks already in. The catalysts that ultimately stabilizes the market and supports higher equity prices is corporate earnings, in our view. Valuations are now back to more normal levels and in the coming weeks, these earnings announcements which generally start around April 9th and continue to culminate throughout the rest of April, should provide that stabilizing force as we expect investor flows to once again come back into equities, given the high profit growth that we anticipate. We continue to believe that weak market periods represent a rebalancing opportunity for the long-term investor. Stay the course.

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