MARKET COMMENTARY

INVESTMENT STRATEGY GROUP

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Global Stock Markets: Understanding the Volatility in 2018

Backdrop

As of this writing, global stock markets (U.S. and international) in 2018 can be viewed as three different time periods. Early in the year, global stock markets were choppy—but moved in a tightly synchronized fashion higher. Then in May, we saw large price divergences between U.S. and international stocks fueled by trade tensions, fiscal stimulus, and a rising U.S. dollar. U.S stocks trended upward while international stocks all receded into negative territory. In August, global stocks fell into in a synchronized pattern again—this time downward—as the rush of fiscal stimulus began to wear off, trade tensions increased, and sustainability of global growth became a heightened concern. Suddenly, rising interest rates have turned from a tailwind to a headwind for the markets. After all, if interest rates continued to rise as growth slowed, what would keep stocks from selling off? This has led to the weakness in global stocks the last few months that has led all major regions into negative territory.

Markets have been sensitive to every potential nuanced policy change and news story, especially as it relates to the Fed and China. For example, in early October, Fed Chairman Powell stated that rates were a “long way” from neutral, which the markets interpreted as many more rate hikes to come. Global stocks sold off more than -7% in just that month. In November, Powell tempered that statement, indicating that rates were “just below” the “broad range” of neutral. The markets cheered this forward guidance believing it signaled the Fed could be close to ending their rate increases, and therefore more supportive of equity prices.

Similarly, the markets have vacillated at each step of the U.S. and China trade negotiations—rising with each potential resolution and falling at each stalled meeting. Of course, there are many other events adding to the daily market gyrations as well, including oil supply concerns, a Brexit deal, and the Italian debt situation, just to name a few.

What does this mean for you?

This start-stop environment can be very confusing for investors as the outlook swings wildly from hopeful to bleak in a few days. And while we don’t believe anyone can know in the near term how these specific events will play out, we do believe there are some actionable steps you can take to improve your chances of better future outcomes.

First, have an **updated, goals-based financial plan.** This entails laying out future cash flow goals by time horizon. The markets will always present a wide range of unpredictability, but a solid financial plan can help free you from the reliance on uncertain markets.

Second, **invest according to your time horizon**. Short term market moves are simply too difficult to predict. As such, investors should not rely on stocks for short-term goals because the range of outcomes is simply too wide. Longer-term investors who can look past the near-term volatility should consider a heavier exposure to stocks.

Third, **focus on diversifying**. Market prices can be distracting in the short term, especially in years like 2018 when almost every asset class has struggled.

We understand this year has been a hard year for diversified investors with the many uncertainties that exist in the markets. However, we believe navigating through volatile financial markets begins with identifying your short-term and long-term financial goals and investing accordingly. If you have questions regarding your plan or would like to speak to one of our investment strategists, please contact your advisor.
