

BCA Market Perspective © 2018: The Year the Vix Struck Quick

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Through the first three quarters of 2018 markets saw stocks trend higher with optimism surrounding the large corporate tax cuts from 35% to 21% - immediately boosting earnings expectations. However, political clamoring in Washington, rising interest rates, a trade war with China, tariffs, and signs of a global economic slowdown took its toll in the final quarter of the year. The -13.5% decline among stocks in the final three months of the year was associated with a steep increase in the CBOE Volatility Index (VIX). The move erased the year's gains with the S&P 500 posting the first negative annual return (-4.4%) since the financial crisis in 2008.

Volatility was fully evident in the Dow Jones Industrial Average as the index experienced swings of +/- 9% nine times in just the month of December, totaling 64 moves of that magnitude for the year. For perspective, 2017 saw just eight such moves. A significant portion of these major market swings occurred late in the trading day, suggesting that algorithmic (or "programmed") trading contributed to the volatility. While the ferocity of price swings during the fourth quarter was high, the duration of the correction was short.

Many of the concerns we ended 2018 with remain as we usher in a new year. Yet there are still positive factors to hold on to. The U.S. economy remains strong and valuations for many stocks are reasonable, interest rates remain at historically low levels, and the Fed is expected to slow or even pause rate hikes for the foreseeable future.

We are reminded in these volatile times that investing is a marathon, not a sprint. Markets are cyclical, with moves up followed by reversals back down. We have been fortunate to see a predominantly bull market for over 9 ½ years. While no one looks forward to down markets, a market correction was overdue and based on where equity fundamentals remain, it looks to be a short-term setback. Long-term investors have historically been served well by "staying the course" and focusing on meeting long term objectives.

