

Seat Belts Fastened: Volatility Ahead

By Vito J. Racanelli • February 10, 2018

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For 15 months, from the 2016 election of President Donald Trump until recently, the stock market was a smooth, one-way trade: up 34%, with nary a significant pullback. A turn on the Brooklyn Cyclone it was not.

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With February's swift stock market correction, volatility has arrived and will probably stay awhile. The downturn last week ended a streak of 404 trading days without a 5% drop in stock prices from the previous high—the longest such streak in market history.

The last correction came in February 2016, when stocks dropped 15%. Investors then fretted that Chinese economic growth might be slowing, which turned out to be a false alarm. Long term, the latest nose dive might yet become just a bull speed bump, but there's already been plenty of pain.

The Standard & Poor's 500 index closed on Friday at 2619.55, rallying 1.5% on the day, but down 5.2% for the week. At Thursday's close, stocks were down more than 10% from their previous all-time high—the traditional definition of a correction—of 2873, set Jan. 26. Down 2% the market is already below the previous year end—a position it was never in during 2017.

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Does this mean a bear is in sight after nearly a decade in hibernation? Bear markets, a 20% drop from the highs, are typically caused by recessions. Yet anxiety about further losses has intensified, despite little evidence of any economic contraction in the offing.