

Get Used To Volatility

In the wake of the almost soporific market advance of 2017, more than a few investors have deluded themselves into thinking that this course is the new normal. Surprise, surprise. It most definitely is not.

For most of the latest few weeks, triple-digit moves have become commonplace and, indeed, less than shocking. Although they represent a big change from the steady-as-she-goes path of the year just past, hundreds of points in either direction, relative to the current level of the Dow Jones Industrial Average, is really no big deal. Three hundred points up or down is barely more than a 1% change.

Along with this reemergence of volatility comes a more important question: Where are we going? Although no one knows the answer, history tells us that above average gains are generally followed by more moderate progress. This doesn't necessarily happen in any one year, but it will almost certainly become evident when viewing more lengthy spans of time.

Is the U.S. economy OK? Yes, though one would be remiss in overlooking the steady rise in the national debt. As interest rates rise, that will become a more pressing issue. And rise they will, given Fed Chairman Powell's expectation that there will be a total of four hikes this year.

Should interest rate hikes be a concern? Not yet. In the past the investment markets have generally been indifferent to the early rounds of interest rate rises. And keep in mind the reality that interest rates are still well down in the low single digits. So it would take quite a jump to reach a level that would be problematical. We are nowhere near that point.

Corporate earnings are rising at a solid pace. The geopolitical pot continues to simmer, not boil. And economies across the globe are in relatively good shape. That's a formula for maintaining current valuations, but not one that would look ahead to a further major advance.

Much more of the current price action will be up and down from day to day rather than many steps up with only a small, occasional pullback.