

The Return of Equity Market Volatility

February 2018



After an almost unprecedented period of record low equity market volatility that began in late 2016, equity markets have experienced a sharp reversal from record highs set in late January 2018. While it's somewhat difficult to identify a clear reason for this sudden pullback, excessive optimism relating to tax reform, the Federal Reserve continuing to unwind its balance sheet, rising interest rates and above average equity valuations are the likely culprits. More important, there are currently very few reasons to believe that a sudden slowdown in economic activity and corporate profitability growth is imminent.

Equities had an almost uninterrupted march upward in 2017 as market volatility was nearly non-existent and remained near record lows for most of the year. Examples of this low volatility included:

- The S&P 500 Index produced a positive return in every month of 2017 (something that had never happened before in a full calendar year).
- The S&P 500 Index did not fall by more than 2% in a single day all year, and had just eight days where the index was up or down more than 1%. This is the lowest number of such days since 1964.
- The Dow Jones Industrial Average Index set 71 new highs throughout 2017, the most new highs in a calendar year since 1910.



After an extended period of relative calm in the equity market, it is important to remember that periods of heightened market volatility are inevitable. In fact, the Dow Jones Industrial Average has experienced a 10% or more decline ("market correction") roughly once per year on average from 1900 to 2017 (source: Capital Research and Management Company).

As the severity and duration of equity market drawdowns is impossible to predict, it is important to remain fully invested, even during periods of falling equity prices. Market timing is an impractical exercise as no one can consistently identify market tops and bottoms. Ultimately, this behavior results in lower returns over a full market cycle. Further, it is not uncommon for the best days of equity market performance to quickly follow the worst. Simply remaining fully invested rather than missing the best days can help increase the probability of investors meeting their long-term risk and return objectives.

*The **Chartered Financial Analyst® (CFA)** charter is a graduate-level investment credential awarded by the CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.*

The opinions contained in the preceding commentary reflect those of Sterling Capital Management LLC, and not those of BB&T Corporation or its executives. The stated opinions are for general information only and are not meant to be predictions or an offer of individual or personalized investment advice. They also are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. Any type of investing involves risk and there are no guarantees. Sterling Capital Management LLC does not assume liability for any loss which may result from the reliance by any person upon any such information or opinions.

Investment advisory services are available through Sterling Capital Management LLC, a separate subsidiary of BB&T Corporation. Sterling Capital Management LLC manages customized investment portfolios, provides asset allocation analysis and offers other investment-related services to affluent individuals and businesses. Securities and other investments held in investment management or investment advisory accounts at Sterling Capital Management LLC are not deposits or other obligations of BB&T Corporation, Branch Banking and Trust Company or any affiliate, are not guaranteed by Branch Banking and Trust Company or any other bank, are not insured by the FDIC or any other government agency, and are subject to investment risk, including possible loss of principal invested.