Perspectives Around Recent Market Volatility

Executive Summary: Perspectives Around Recent Market Volatility
January 31, 2022

What happened?

Since the beginning of the year, the world's major stock indices are down, and the United States indices in particular have suffered losses. From their early January highs, the All Country World index and the S&P 500 had fallen ~10%, while the Nasdaq composite had fallen ~15%, before each recovered slightly on January 28, 2022.

Although the downward moves are not severe within the context of normal stock market volatility, they appear so for two reasons. First, 2021 was particularly calm following the turbulent market events of 2020. As shown on Chart 1 below, the S&P 500 rose or fell more than 2% only seven times in 2021 versus 44 times in 2020. Moreover, Chart 2 shows that while realized volatility in 2021 was slightly below the 10-year average, it was significantly below the market volatility experienced in 2020. More broadly, the stock market tends to fall 10% every 1.5 to 2 years, so these recent moves only are unusual when comparing the stock market to particularly calm times. Second, underneath the headline indices, there is a notable rotation happening and pockets of truly astonishing capital destruction. For an example of a rotation, the S&P 500 Energy index has gained ~18% YTD while the S&P 500 Consumer Discretionary index has lost ~13% YTD, compared to the last five years when energy stocks generated annualized losses of 2% and consumer discretionary stocks generated positive annualized returns of 16%. For examples of capital destruction, there are many, including meme stocks, SPACS, recent IPOs, retail favorites being cut in half, or worse. On the Nasdaq composite, the number of companies making 52-week lows versus 52-week highs currently has only been exceeded in March 2020 and late 2008 over the last 25 years.

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