

Putting recent market volatility into context

Markets have been volatile globally since mid-September. Concerns over a potential slowdown in global economic growth, especially in light of disappointing data in Europe and China, and more recently the US, has seen investors exit share markets.

While market movements are concerning, it is important to note that such fluctuations are not unusual. On the contrary, they are quite normal and can be a healthy part of the market cycle.

Global markets have also experienced similar periods in the recent past, with the current episode being the fifth in the last three years. Table 1 shows that the current market decline is well short of the drops seen in 2011 and is below that experienced in the first half of 2012. Despite four corrections in the market of at least 7% each, global shares in US dollar terms on a total return basis have risen 24% in the past two and a half years.

Table 1: Global share market declines in the past three years

	21/7/11 – 4/10/11	19/5/12 – 4/6/12	14/9/12 – 16/11/12	20/5/13 – 25/6/13	Current period**
Opening index	1352	1326	1348	1518	1751
Closing index	1075	1151	1253	1413	1595
% Change	-20.5%	-13.2%	-7.0%	-7.0%	-8.9%
Duration (days)	89	77	63	36	50

Source: MSCI World Index in USD. Bloomberg. **Current period to 15 October 2014.

Is it different this time?

While no one can predict how markets will perform over the short term and whether the current correction has longer to run, we are of the view that current valuations and the economic backdrop should provide ample ground for share markets to recover over time.

Valuations – when one delves deeper into the market declines, one will see that the drop has happened despite a general rise in earnings in the US. This means that prices on average have actually become relatively inexpensive and somewhat attractive.

Economic – current growth in the global economy, while less than expected, is in line with what we've seen over 2012 and 2013, periods where markets performed well. Also, with continued easing by many developed market central banks, we remain in a supportive environment for share markets.

In summary, market corrections are not unusual and based on past corrections, we may be closer to the end of the current correction than the start. While the outlook for Europe and China are key, our view is that neither a European recession nor a hard landing in China is likely.

While volatile times can be a cause for concern, it is important to remember that even though market moves can be rather dramatic on a day-to-day basis, they do follow long-term cycles. A patient investor with a well-diversified portfolio will reap the rewards of long-term investing.

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