U.S. ECONOMY: STRONGER FOR LONGER

Ask the PORTFOLIO MANAGER

What happened during the first quarter of this year, and what are the implications for investors?

Transcript of a video recorded on May 30, 2018.

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In our view, Q1 was a watershed for equity volatility, and the question is why. If we step back to 2017, markets enjoyed the Garden of Eden for passive investing because passive investing is driven by low interest rates and low volatility.

Coming into this year, that growth and inflation tradeoff changed dramatically. We think we've seen the inflection in volatility for the rest of this cycle. The question is what does that mean. If we go back to 2007, when equity volatility inflected, everything else inflected, and it marked the end of the cycle.

But if we go back to 1997 when volatility inflected, it didn't. In other words, we still had two or three years of benign economic conditions that allowed the market to continue upwards. In our view, investors should watch bond volatility, not equity volatility.

The reason is that the inflection that we've seen has a very benign source, and that source is the nature of economic growth. Investors have finally begun to realize that economic growth in the United States will be stronger for longer, and yet we still don't face any inflation pressures.

Similar to what happened in 1997, bond volatility will not inflect, and corporate credit conditions will remain benign. That's why we think this particular equity inflection, so far, will be a benign one.

WATCH VIDEO

Video recorded 5/30/18.

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