

Volatility Ahead

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Over the last few months, volatility has been increasing to an extent not seen in many years. It's a bit scary to most investors. The generals of the markets (i.e., Apple, Amazon, Microsoft, etc.) have finally started rolling over, and that's why market index declines are getting noticed by more investors. As their market weightings made markets appear to keep growing during times of loose monetary liquidity, the opposite is now happening in tighter times. Market indexes are taking big hits to the downside, and a good part of these declines can be attributed to those same Mega-cap stocks.

The best guess is that near-term, there may be another 10% or so decline within the major indexes. Many stocks that were negatively affected by COVID-19 (e.g., leisure and travel, cyclicals and financials) are offering opportunities. The point is that market sectors are rotating to those already beaten up from those about to get beaten up.

As mentioned numerous times, bull markets transition to bear over long periods of time. This may already be a bear market, but still only in the first stage. If so, look forward to some rip-roaring rallies coming.

If the Federal Reserve continues with higher interest rates and quantitative tightening, these rallies will be followed by big declines until there's a final capitulation in markets. No one yet knows how far down or how long that will take. A recession will be sure to follow along with declining asset prices in stocks, real estate, and other assets.

I expect that the best buying opportunity in markets since COVID slammed the US in March 2020 will be presenting itself within the next month or so. This will be a rally to further lighten up on stocks until we see some final capitulation. The rally could have a duration of anywhere from one to four months. We'll adjust our views as the evidence presents itself.

In the meantime, we need to be psychologically flexible and available to the coming opportunities. If higher interest rates are here to stay, then the next few years will be a totally different environment from the last ten. Again, flexibility is the key. Don't be surprised if the worst performers of the last decade (i.e., emerging markets, commodities, small caps, etc.) turn out to be the winners of this decade.

