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OP-ED: Is market volatility seasonal, or a result of trade war whiplash?

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In this column, you have often heard me refer to the market climbing a wall of worry.

Surely, at this time, the market has a lot to worry about. Is that the reason the equity markets have climbed 20-30 percent year-to-date?

The slowing global economy, trade war with China, Brexit missteps, Hong Kong demonstrations and interest rates inverting have all been headline news and negatives for the U.S. economy and the stock market.

"Trade wars are good and easy to win," opined President Trump, as he began the current dispute with China. With each passing month, we are told we are winning the trade dispute and that an agreement is at hand – even inches away, according to the White House – yet the dispute continues and in some cases worsens.

If you can count the outcome of the demonstrations in Hong Kong as a sign of winning against China's control, then we should be optimistic. But political unrest in Hong Kong is threatening global stability.

Brexit also threatens disruption of the global economy, with the only solution offered being another general election in Britain; no consolation there.

The U.S. interest rate yield curve briefly inverted, so the Federal Reserve lowered interest rates again. Was that a solution or just another problem? Wherever one looks there is worry, and yet the U.S. equity market appeared strong with the S&P up 25.3% from Jan. 1, 2019, through Dec. 1, 2019. The Nasdaq was up 30.6% and the Dow Jones Industrials up 20.3% during the same time period.

The S&P added 3.4% for the month of November, while the Nasdaq gained 4.65% and the Dow 3.7% for the month. The S&P and Nasdaq gained for three months in a row. Looking ahead, December has historically been a good month for the averages. Since 1950, December has been the best month for the S&P, according to the Stock Trader's Almanac. For the Nasdaq, it has been the second-best month.

Yet trade wars upended this trend in December 2018. Until Dec. 3 of this year, the market had not seen a loss greater than 1% (on the day) since Oct. 8. The uptrend had been characterized by low volatility, which is a sign of market strength. For a plain vanilla portfolio of stocks, it has been a calm and bright period, according to J.P Morgan's chief global strategist. Of course, after heady gains, the market is due for a pullback. Yet the U.S. consumer, the driver of the economy, remains strong, as evidenced by online sales over the Thanksgiving holidays surging 21% from a year ago.

Suddenly, as November drew to a close, all was not shiny and bright. U.S. industrial production fell for the fourth month in a row. Trade negotiations with the Chinese were disrupted when President Trump announced that he was prepared to wait a year to make a deal. Stunned, the market dropped over 400 points in the blink of an eye. President Trump said that it was "peanuts". Whichever way the negotiations go, the result is likely to have a major impact on the market, as it remains hypervigilant to trade discussions.

The president says we are winning the trade war. However, the Chinese consumer is spending less, since U.S. tariffs raise prices and therefore lower consumption. The result is a larger trade gap with the U.S., which is not what President Trump wants. So is losing the new winning? During the campaign, the President said we would be winning so much we would be sick of winning.

For the last two months, investors have been counting on the fact that a trade deal between the U.S. and China was all but complete. It was talk of a “phase one deal” in early October that renewed the stock market rally. The S&P 500 was up 4% since President Trump touted a deal on Oct. 11. More remarkably, the index enjoyed 13 record closes, but not anymore.

So what is an investor to do in this volatile market? Investing long-term in a well-diversified portfolio should yield the best results.

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