Close Brothers' views on recent market volatility

We believe this is a period of volatility and not the onset of something more significant.

Key points:

•The latter stages of an expansion, which we are in now, comes with volatility, which means rapid sell-offs followed by rebounds

•One correction has already taken place this year; markets were down sharply in the 2nd quarter and then rebounded throughout most of the 3rd quarter, up until last week

•The catalyst for this current sell-off was the sharp rise in bond yields, the US 10 year moving from 3.0% to 3.2% and bond yields elsewhere also moving higher

•The move was sparked by stronger US employment data, reminding investors that in tighter labour markets, such as we have in the US and UK, wage gains can cause inflation to move higher

•The downdraft has been exacerbated by ongoing political concerns: trade friction, Brexit, emerging markets and the Italian budget. The speed of the decline is also a function of 'algorithmic traders', whose computer driven selling programmes cause market moves to be exaggerated

Close Brothers' view:

•A rise in rates has an impact on the valuation of shares; it causes price to earnings multiples to contract, which is what has happened in this case. The adjustment is sometimes smooth and sometimes violent

•Given markets and stocks had been fairly strong in the 3rd quarter, sentiment was complacent, causing the violent reaction this time

•Declines of this type can continue for weeks before markets stabilise

•October is traditionally a poor/corrective month for returns and therefore, monthly seasonality is likely a factor as well

Further thoughts:

•It remains our view that economic growth and earnings growth, particularly in the US, continue to be supportive

•The start of earnings season is next week and we believe that this will help to stabilise markets, particularly for companies able to beat consensus estimates

•We still believe that equities are the best place to be to deliver growth and ultimately, will provide a better return than cash or bonds

•Stock selection is critical and we are closely monitoring market movements for opportunities to buy into favoured names at more attractive prices

•We are looking at sectors of the market which may be more defensive as a way to cushion further volatility

•While most asset classes have been down over the last week, there have generally been less declines in bonds and alternatives

•Multi-asset class investing, and thus diversification, is helping to cushion the experience of volatility in client portfolios

Taking the above points into account we are staying the course and will be reviewing stock and sector exposure in the coming weeks.

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