GOELZER
INVESTMENT MANAGEMENT

# Volatility Awakens from Its Slumbers

This Monday's trading day offered two historic market moves. The 12%, single-day drop in Japan's Nikkei stock-market index was the largest decline in that index since 1987. Domestically, the so-called "fear" gauge—viz., the Chicago Board of Exchange's Volatility Index (the VIX)—had its highest daily spike since that index's creation in 1990. That spike was higher than daily moves during the Great Financial Crisis of 2008 and during the economic shutdowns of the Covid-19 pandemic.

Binding the two landmark events is the unwinding of a popular trade, a trade that had grown in popularity during a period of ultra-low interest rates. Borrowing in currencies where interest rates were low or even negative (such as the Japanese yen) and investing where return prospects were greater (such as U.S. technology stocks) offered investors prospects of capturing positive "carry" between the two assets. The assumption, of course, was that the relationship between the two assets would hold.

Last week's news on the U.S. economy—and the Bank of Japan's decision to raise interest rates—threw that assumption into question. Investors adjusted positions quickly to prepare for lower domestic rates in the U.S. and more expensive funding sources from abroad. The size of Monday's volatility spike show the risks of crowded trades when they unwind.

CHART OF THE WEEK

CBOE Volatility Index (VIX) Intraday Change
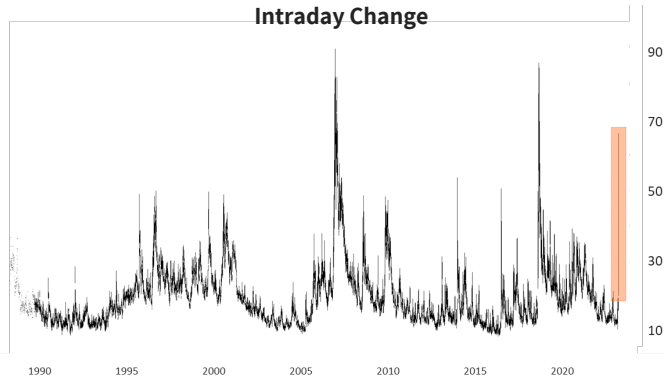
Source: Bloomberg

Index Returns (%)

Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.
S&P 500	5240	-3.59	-3.95	10.74	18.76	7.76
Russell 1000 Growth	3385	-3.60	-7.73	11.37	22.79	7.42
Russell 1000 Value	1726	-4.00	0.64	7.31	11.99	5.39
FTSE High Dividend Yield*	416	-3.83	0.09	7.92	12.96	7.04
S&P Small and Mid Cap	16228	-6.36	-0.06	3.95	8.97	2.87
MSCI EAFE	2244	-4.12	-2.97	2.64	8.13	1.87
MSCI EM	1031	-3.75	-4.58	2.71	4.18	-4.39

Index Characteristics

NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld
21.8	16.7	2.8	1.7	1.4
29.0	19.8	5.0	2.0	0.6
17.2	14.9	1.7	1.4	2.1
13.3	14.3	1.6	1.6	4.1
17.3	19.0	1.2	1.2	1.7
14.0	14.7	1.4	1.1	3.2
12.4	12.6	1.3	1.3	2.8

* Bloomberg U.S Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.
U.S. Aggregate	4.47	1.44	3.25	2.51	6.80	-2.20
U.S. Int. Gov/Credit	4.21	1.07	2.57	3.06	6.62	-0.50
U.S. Corporates	5.06	1.01	2.85	2.35	8.35	-2.34
High Yield	7.79	-0.28	1.45	4.07	11.14	2.06
Municipals (1-10)	3.00	0.96	1.84	1.06	4.63	0.06

Levels

Currencies	Last	1 Wk Ago	Prev YE	3 Yrs Ago
DXY	103.16	104.10	101.33	92.80
$ per €	1.09	1.08	1.10	1.18
$ per £	1.27	1.29	1.27	1.39
¥ per $	147.26	149.98	141.04	110.25

Levels (%)

Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago
2-yr Treasury	3.98	4.26	4.76	4.25	4.75	0.21
10-yr Treasury	3.89	4.03	4.40	3.88	4.03	1.30
30-yr Treasury	4.18	4.30	4.56	4.03	4.21	1.95
3-mo. LIBOR	5.39	5.50	5.59	5.59	5.63	0.13
6-mo. CD rate	4.87	5.18	5.42	5.28	5.74	0.09
Prime Rate	8.50	8.50	8.50	8.50	8.50	3.25
30-yr fixed mortgage	7.02	7.04	7.26	6.99	7.37	3.03

Levels

Commodities	Last	1 Wk Ago	Prev YE	3 Yrs Ago
Oil (WTI)	74.55	77.91	71.34	56.48
Gasoline	3.46	3.48	3.12	3.19
Natural Gas	2.07	2.04	2.51	4.14
Gold	2400	2448	2063	1763
Copper	8804	9102	8464	9446
Wheat	540	527	628	719
BBG Index	224.29	228.47	226.43	202.18

LAST WEEK IN REVIEW

- **JOLTS (June):** 8.2 mln job openings, slightly higher than expected. 1.2 job openings per unemployed persons.
- **FOMC Rate Decision:** Rates unchanged, though strong signals in press conference that a 0.25% rate cut is likely in September. Markets now expect a 0.50% cut in September.
- **ISM Manufacturing:** 46.8, lower than expected and showing continued contraction in the manufacturing sector.
- **Payrolls and Unemployment (July):** 114K jobs created, weaker than expected. Unemployment rate increased to 4.3%.

THIS WEEK

- **ISM Services (July):** 8/5
- **Senior Loan Officer Opinion Survey:** 8/5
- **Trade Balance (June):** 8/6
- **Initial & Continuing Jobless Claims:** 8/8

S&P SECTOR RETURNS

This Past Week

Year-to-Date