36 South Views

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The volatility train

The volatility cycle starts a bit like a train leaving the station.

Hustle and bustle as people say their last-minute goodbyes. The whistle sounds a few times, which are effectively ignored.

Then comes the first jolt as the engine moves forward and all the carriages start to tighten on their linkages. It feels like an interminable amount of time before the carriages actually start moving.

When they do, the train moves out of the station slowly, then quickly.

We have just seen the first volatility "jolt" and I am genuinely curious as to whether this time will be any different. My only disclaimer against my metaphor hypothesis is that August is a historically low liquidity month.

For many years, the gestalt was that the global equity market would faint once Japan started to raise rates as it removed the prime source of leverage. Maybe the old sea dog investors are moving to the side lines because the Bank of Japan raised rates for the first time in decades last week. Talking of old sea dog investors, it did not help that news of Buffet selling half his Apple stock hit the market over the weekend.

I now fully expect the volatility train to leave the station, slowly rising until it reaches a crescendo at some volatility peak sometime in the future.

We have spoken about the "snags," which heuristically indicate we are in a very late-stage bull market i.e., meme stocks, narrowing of leadership, infallibility of AI and tech stocks, etc., and the volatility train metaphor is a "snag" in the volatility space.

There is nothing new under the sun, and we have seen this cycle before. Perhaps the only new thing now is the speed at which disruption happens. Technology is disrupting everything, including societies, at shorter and shorter time intervals.

What is now the market's biggest strength could become its biggest weakness.

Investors who will survive are those who will thrive on disruption in both bull and bear markets. Those who are resilient to change and even embrace it by making their portfolios resilient by investing in long-volatility assets.

"Neither a wise man nor a brave man lies down on the tracks of history to wait for the train of the future to run over him." – Dwight D. Eisenhower

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