

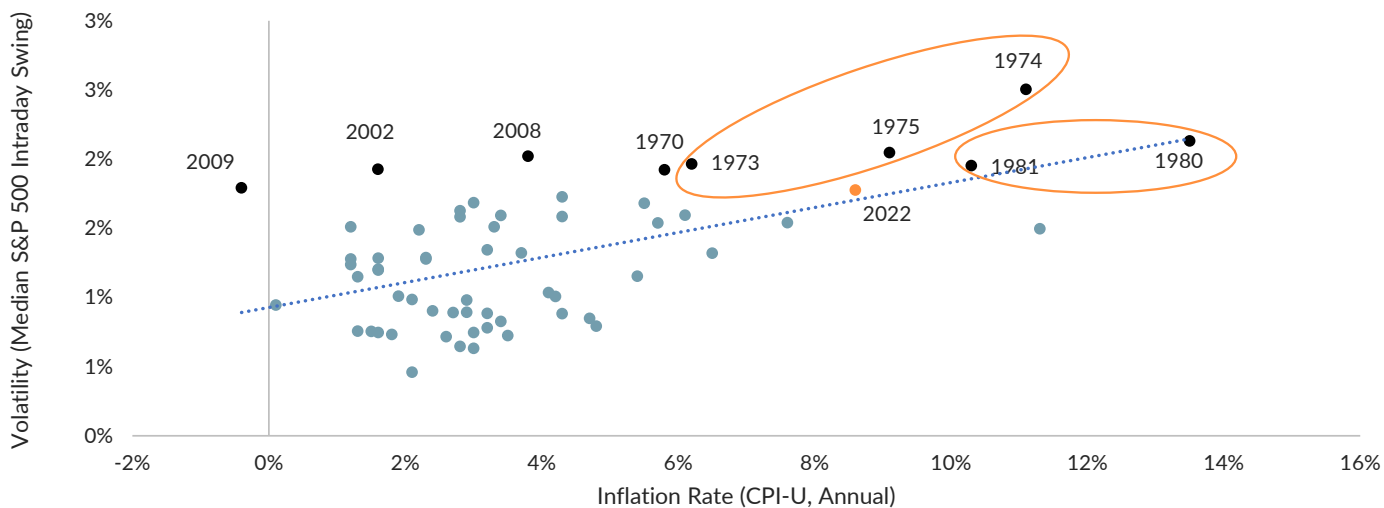
BUCKLE UP FOR 2023 IF CPI STAYS HIGH

So far in 2022, median intraday volatility of 1.8% is at the tenth highest level since 1962,¹ similar levels to the 2002 dot.com crash and the 2008 global financial crisis. But unlike those years, higher day-to-day volatility has not been accompanied by a correspondingly large maximum intraday move for the year (5.3% in 2022 vs. 10.7% in 2008 and 8.1% in 2002). The S&P 500 maximum annual drawdown for 2022 has also been smaller relative to those years (24.0% for 2022 vs. 47.7% in 2008 and 31.5% in 2002). While 2002 and 2008 were both in the midst of a bubble burst, other factors seem to be driving the increase in daily market volatility this year.

Most significant has been the Federal Reserve's pivot from accommodative to restrictive monetary policy, raising the fed funds rate 375 bps this year in an effort to thwart inflation. The June CPI report of 9.1% year-over-year inflation was the highest reading in 40 years. Unlike 2002 and 2008 when inflation was not a significant market factor, current levels of median intraday volatility with smaller maximum moves are similar to the inflationary environments in the 1970s and 1980s.

The chart graphs the annual rate of inflation² versus the median intraday volatility. The trendline shows that as inflation increases, the median intraday volatility almost always increases, with the larger percent of higher daily volatility years occurring in the higher inflationary periods in the 1970s and 1980s. The clustering of years with higher inflation and higher median intraday volatility (circled in orange) suggests that day-to-day stock market volatility may remain highly oscillating in 2023 if inflation levels remain elevated.

Stock Market Volatility versus Inflation Rate, 1962-2022



Sources: Yahoo! Finance, Minneapolis Fed
The top 10 years of median intraday volatility are denoted by the orange dot for 2022 and the black dots for the other 9 years; blue dots are the other 50-year observations between 1962 and 2022.

All data is through 11/14/2022

¹ Using data from Yahoo! Finance, median intraday volatility of 1.8% is almost 40% higher than the average median intraday volatility over the past 60 years of 1.3%.
² <https://www.minneapolisfed.org/about-us/monetary-policy/inflation-calculator/consumer-price-index-1913->

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