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## Four Factors Have Contributed to Higher Stock Market Volatility in 2018. Three of Them Have Improved This Quarter.

Four factors have contributed to higher stock market volatility in 2018. Three of them inched in a more positive direction in April.

**Trade tensions** are still simmering, but they've come off the boil since an April 10<sup>th</sup> speech by President Xi of China that seemed to extend an olive branch to the Trump administration. While the two countries will continue to quarrel publically, investors are more confident that a resolution to trade disagreements will be sought behind the scenes.

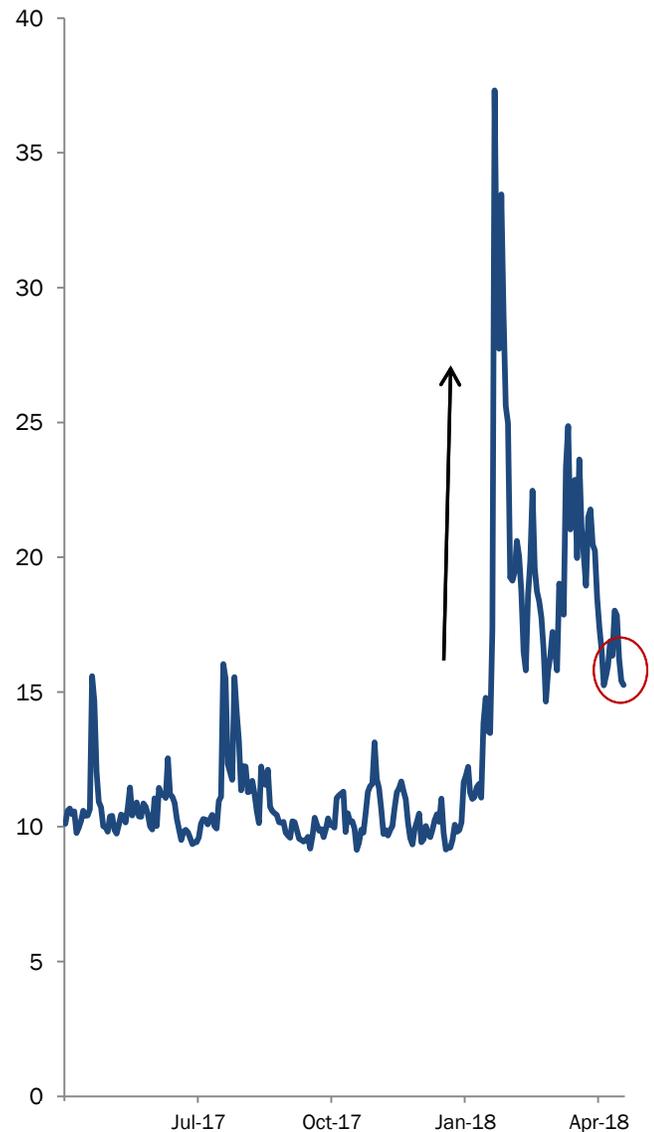
**North and South Korea** have seen a startling de-escalation in hostilities, with the countries agreeing to work toward denuclearization of the Korean Peninsula and the official end of the Korean War.

**Facebook** founder Mark Zuckerberg gave a capable account to Congress in response to concerns over online user privacy abuses. At a minimum, he did not provide regulation-minded lawmakers an opening to pounce on the company, as investors had feared. Investors view companies like Facebook and Google as technology bellwethers, and the rebound in Facebook stock has boosted the entire sector.

On the flipside, the fourth factor driving market volatility—the **Federal Reserve**—continues to be a source of uncertainty. Fed Chairman Jay Powell has not blinked amid recent market volatility, remaining resolute that further rate hikes are warranted. Investors now assign a 50% chance of four or more hikes in 2018, up from 12% at the beginning of the year (we've had only one).

With inflationary pressures rising, the Fed no longer has the luxury to dial back its rhetoric in response to market volatility. This is the biggest change for markets in 2018 and means volatility is unlikely to turn to the low levels of 2017.

CBOE Stock Market Volatility Index (VIX)



Source: Hefren-Tillotson, Bloomberg; PAST PERFORMANCE DOES NOT PREDICT FUTURE RESULTS

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