STOCKS

Stocks Have Rarely Been This Quiet in the Past 50 Years

Initial U.S.-China trade deal and lower interest rates drive extended period of calm trading

Stocks have been resilient to start the year. **PHOTO:** BRENDAN MCDERMID/REUTERS

By Amrith Ramkumar

Jan. 16, 2020 8:00 am ET

The S&P 500 is in one of its longest streaks without a 1% daily move in the past five decades, highlighting how the latest leg of the stock-market rally has been a gradual climb rather than a euphoric surge.

The broad equity gauge hasn't moved 1% or more in either direction since mid-October, its sixth-longest streak since the end of 1969 and third-longest since the end of 1995, according to Dow Jones Market Data. Driving the extended period of calm trading: An initial U.S.-China trade deal and lower interest rates around the globe that have eased fears of a sharp economic slowdown.

Stocks have been resilient to start the year, shaking off concerns about conflict in the Middle East, lukewarm earnings and downbeat manufacturing activity to fuel confidence that the longest-ever bull market can continue. The S&P 500 has risen nearly 10% in the past three months and 26% in the past year, supported by bets on a more stable economic outlook. It hit a fresh record Wednesday at 3289.29.

"Right now it's very, very tough to fight this trend," said Yousef Abbasi, global market strategist at INTL FCStone. "There's a reinvigoration in the idea that we will see better growth."

At the same time, many analysts are wary that the eventual return of volatility could fuel an unwind of wagers on riskier investments and spark a market downturn.

That trend played out the last two times stocks went this long without a large move—streaks that ended in January 2018 and October 2018. After both of those quiet stretches, the S&P 500 tumbled into correction territory, defined by a drop of more than 10% from a recent peak. Its long bull-market run nearly ended on Christmas Eve 2018, when it approached a 20% slide below a recent high, dragged down by investors' worries about trade tensions and higher borrowing costs.

Both of those 2018 selloffs were exacerbated by a reversal in big bets against volatility, a trend that some analysts warn could play out again. The Cboe Volatility Index, or VIX, which measures expected swings in the S&P 500, is down 33% in the past 12 months. Known as Wall Street's "fear gauge," it is 26% below its 10-year average level and 57% below its 20-year average.

One factor that could upend the recent calm period in which many investors are feeling hopeful about the economic outlook: Political uncertainty surrounding this year's U.S. presidential election.

"It would be more of a sentiment-driven pickup in volatility," said Amanda Agati, chief investment strategist at PNC Financial Services Group. "The policy story is so starkly different between the two parties that it's really hard to play the election from an investment standpoint."

Investors are eyeing other possible factors that could trigger an unwinding of bets on an extended calm stretch. Those range from a reversal in stocks like Tesla Inc., which has rocketed higher in recent weeks, to more trouble in beleaguered emerging markets like Argentina and Turkey. Traders often worry problems in the riskier corners of the market will spread elsewhere.

Shares of Tesla have more than doubled in the past three months, giving the electric-auto maker a larger market value than General Motors Co. and Ford Motor Co. combined. Shares of plant-based meat company Beyond Meat Inc. are up 42% so far this month, another eye-popping move that some analysts say could be a sign of excessive risk-taking.

Few currently see unrestrained optimism on a broad scale, though, with many investors still favoring safer assets like bonds and gold and expecting muted earnings growth in the months ahead.

Coming profit reports could also end the quiet stretch for stocks if results are significantly better or worse than Wall Street expects. Reporting season for banks continues in the coming days with Morgan Stanley's fourth-quarter results and picks up for many sectors next week, with big names like Netflix Inc., Procter & Gamble Co. and Johnson & Johnson posting earnings.

The market's reaction to results from large lenders has generally been muted so far, another sign that traders are hopeful for a better outlook later in 2020.

"Expectations have been tempered and a lot of people are willing to forgive," Mr. Abbasi said.

—To receive our Markets newsletter every morning in your inbox, click here.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com