Market Bulletin – Investment Markets Performance and Recent Volatility
March 12, 2020

The 4th quarter was overwhelmingly positive for stock investors globally. The S&P 500 Index, broadly representing the U.S. stock market, returned 9.1% for the quarter and ended 2019 with a gain of 31.5%, while the MSCI EAFE Index returned 8.2% for the quarter and 22.0% for the year. Bond investors also saw gains for the period, though more risky high yield bonds and emerging market debt performed better than safer U.S. Treasuries. In all, the broad bond market, represented by the Bloomberg Barclays US Aggregate Bond Index, grew by 0.2% in the 4th quarter and 8.7% for the year. The U.S. economy remained consistent, growing by a rate of 2.1% in the 4th quarter, with historically low unemployment, mild wage growth, and tempered inflation. With the U.S. and China agreeing to a Phase 1 trade deal and other macro-economic fears dissipating, 2019 ended strong and investors were hoping to carry that momentum into 2020.

Enter the Coronavirus, Covid-19, which has sent global equity markets into a tailspin through the course of February and March. With an immense amount of uncertainty surrounding the Virus, stock investors hit the panic button as the virus began to spread globally. The S&P 500 Index was down -14.9% from its peak level on February 19th and is down -11.5% for the year through March 10th. The Dow Jones Industrial Average fell further, losing -15.3% from its peak on February 12 and is down -13.3% for the year through March 10. Conversely, those investors in high quality bonds such as U.S. Treasuries and Investment Grade Corporate Bonds, experienced gains as equity markets fell. The yield on a 10-year U.S. Treasury Bond fell from 1.88% to 0.50% as of March 9, signaling large, relative, short-term price gains on those bonds.

During periods of high volatility, like the markets are experiencing today, it's crucial to maintain a long-term investment perspective. There will certainly be a disruption to businesses globally, as you are probably hearing the media reference a 'disruption to the global supply chain', but the short- and long-term effects of the virus on the global community remains to be seen.

What we do know is that governments globally have responded vigilantly with both physical and financial resources. It is also important to remember that this is not a business- or industry-related pull back in stocks. The fall in the stock market is not related to an economic event directly like a decline in consumer spending, high price inflation, or a fall in industrial production. In fact, the stock market has shown resiliency over the past few years, withstanding a dramatic fall in energy prices, two U.S. Government shutdowns, and a year's worth of trade and tariff threats. While we do expect there to be some lingering effects on the global economy after the virus is contained, we do not anticipate the effects to be so dramatic as to send global markets into a recession. The U.S. consumer remains strong and with demand for certain items building, it is reasonable to expect global sales and thus the equity markets to recovery after more confidence has been instilled amongst the public.

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What does this mean for investors? For many investors, the Coronavirus and the effect it is having on the markets, may be a non-event. Investors with a time horizon greater than 10-years should remain vigilant themselves, stay invested in a risk-appropriate portfolio and ride out the volatility. Those investors approaching retirement, participants within 10 years, should have already been thinking about de-risking by selling some stocks and allocating a higher percentage of their portfolios to bonds. Of course, target date fund investors already have this done for them. Because we are seeing very large price swings in the market on a daily basis – selling on a down day could mean you miss the next positive day, as the market is moving up and down each day.

We have attached two pieces that were provided to us by Putnam Investments. We believe these attachments will help your participant investors maintain a long-term perspective with an understanding that market volatility is normal, and markets rise for longer periods than they fall.

In Summary

1 **Market volatility is nothing new.**

- Amid the scary headlines in the news, it's important to remember that stock market volatility is normal. In fact, pullbacks of 10% are not only normal, they typically happen every three years. (1)

2 **The market has been resilient following prior crises.**

- Over the past four decades, investors in U.S. stocks experienced some tumultuous times including "Black Monday's" stock market drop in 1987, the bursting of the tech-stock bubble in 2000 and the U.S. debt-rating downgrade in 2011.
- Yet, from 1980 to 2019, the S&P 500 index (a widely regarded standard for measuring U.S. large cap stock market performance) posted an average annual return of 11.8%. (2)

3 **It's not "timing the market", it's <u>time in the market</u>.**

- Periods of market volatility can be alarming for investors. Some move their money out of the markets in an attempt to preserve capital; and then, later, try to time a reentry at the most opportune moment to rebuild wealth. This is called "market timing" and for it to be successful, it would require an ability to correctly forecast the future.
- Investors who try to time the market around volatility risk potentially miss out on the market's strongest days, thereby decreasing the potential long-term returns of the market.
- As an example, $10,000 invested in the S&P 500 for the period January 1, 1994 through December 31, 2019 grew to $112,840. For investors who attempted to time the market and missed just the 10 best days during that period, saw their $10,000 grow to only $56,314 – about 50% less!(3)

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In closing, those investors who are concerned with overall equity market volatility, those who are approaching retirement, or those not invested in a target date fund, should consider de-risking their portfolios after the markets have experienced gains - like the end of 2019. Now that we have experienced a pullback in the equity markets, now may not be an appropriate time to de-risk. After we experience some level of recovery, the investor may revisit their decision to de-risk the portfolio because it's the correct long-term decision, not a reaction to market movements. These small decisions can be very important to the long-term viability of one's retirement account.

We hope that you find our comments helpful, in light of what we're experiencing in the equity markets. Please let us know if you have any questions or if we can further elaborate on our market perspective.

Thank you.

Important Information

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Sources

(1) JPMorgan Asset Management, "Guide to the Markets", page 13, as of December 31, 2019.

(2) Morningstar, Inc. as of December 31, 2019

(3) Standard & Poor's and measured based on the S&P 500 index. The "best days" to be invested are defined as those on which the S&P 500 Index delivered its highest returns for the given periods based on historical data. Total returns assume the reinvestment of all dividends and/or capital gains. Past performance is not a reliable indicator or a guarantee of future results. Morningstar, Inc.

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