Perspectives on Market Volatility

March 10, 2020

We are writing to provide you our latest perspectives on the extreme volatility that has taken hold across global capital markets in recent weeks due to growing fears of the novel coronavirus ("COVID-19") outbreak and accentuated by the dramatic collapse in oil prices on March 9th.

The global spread of COVID-19 and the continued uncertainty regarding its ultimate human and economic toll has led to historic turmoil across global capital markets; fear has taken hold of investors who are suddenly pricing a significantly higher risk of recession after entering the year on a generally optimistic note.

- ***Equity markets have been beset by unprecedented volatility.*** The S&P 500 entered correction territory, defined as a 10% decline from its prior peak, in only six trading sessions, the fastest correction in recorded history. Indeed, as of the time of writing, global equity markets are on the precipice of bear market territory, which represents a decline of 20% or more from the prior peak, with the Dow Jones Industrials Average suffering its steepest single day decline since the depths of the 2008 financial crisis on March 9th (Wall Street Journal).

- ***In fixed income markets, recession fears have taken hold*** with the yield on long-term U.S. Treasury bonds declining to record lows in a flight to safety, the Federal Reserve announcing an emergency 0.50% interest rate cut on March 3, and the U.S. Treasury yield curve inverting again (Bloomberg).

- ***Oil prices have collapsed***, as members of OPEC+, namely Saudi Arabia and Russia, failed to agree to reduce crude oil output at an emergency meeting over the weekend. In response, both nations have decided to increase supply amid an environment of declining demand, which led to one of the steepest oil price declines in history on March 9th (Washington Post).

The ultimate magnitude and impact of the COVID-19 outbreak remains unknowable, creating potentially paralyzing uncertainty for people and businesses. The real-world implications have become increasingly real outside China, including in the U.S., as businesses are beginning to limit travel and encourage increased work from home, conferences and events are being cancelled, and some families are reconsidering travel plans. Unquestionably, these decisions will have an impact on the global economy, but it remains uncertain to what extent and for how long.

On the one hand, historical precedent suggests that fear-induced market events are typically short-lived and often create opportunity for long-term investors. On the other hand, some key recession indicators are signaling caution, most notably the inverted U.S. Treasury yield curve, a deceleration in The Conference Board Leading Index in the U.S., the rapid decline in long-term U.S. Treasury bond yields, and the collapse in oil prices.

As stated, the immediate future of the coronavirus and its ultimate impact is not knowable. Will the current economic uncertainty lead to a prolonged recession and/or bear market? Or, will the global economy begin to stabilize as investors regain confidence in the efforts being undertaken to control the spread and impact of the virus? Only time will tell, but history can serve as a helpful guide.

While past epidemics were unique and the ultimate impact was similarly unknown, the effect on the global economy and capital markets was typically short-lived:

Source: 'How the stock market has performed during past viral outbreaks', *Marketwatch.com*, February 2020.

If this time is different, and conditions deteriorate into a more prolonged bear market and/or recession, history suggests investors will ultimately be rewarded for remaining disciplined. The table below, which lists U.S. equity bear markets since World War II along with their duration and magnitude, demonstrates how stock prices have recovered and continued to grow over the long term despite these events:

Start *(Peak)*	Duration *(Months)*	S&P 500 return	Year bear market began	Recovery period *(Months)*
May 29, 1946	36	-30%	1946	15
August 2, 1956	15	-22%	1956	11
December 12, 1961	6	-28%	1961	14
February 9, 1966	8	-22%	1966	7
November 29, 1968	18	-36%	1968	21
January 11, 1973	21	-48%	1973	69
November 28, 1980	20	-27%	1980	3
August 25, 1987	3	-34%	1987	19
July 16, 1990	3	-20%	1990	5
March 27, 2000	31	-49%	2000	55
October 2007	17	-57%	2007	65

Source: Moon Capital Management: A Detailed Analysis of U.S. Bear Markets, March 2016

We anticipate continued volatility across global capital markets in the weeks and months ahead. However, we believe it remains prudent for long-term investors to stay disciplined and to avoid fear-induced, emotionally-driven portfolio changes. We will continue to monitor developments closely as we endeavor to thoughtfully manage your investments amid a challenging capital market environment. We would welcome the opportunity to speak with you to review your financial plan and to discuss potential risks and opportunities from the recent market turmoil. Thank you for your continued trust and confidence in our leadership as we continue to guide you in the pursuit of your goals and dreams.

Authored by the Freedom Capital Management Strategies® Investment Team | March 2020