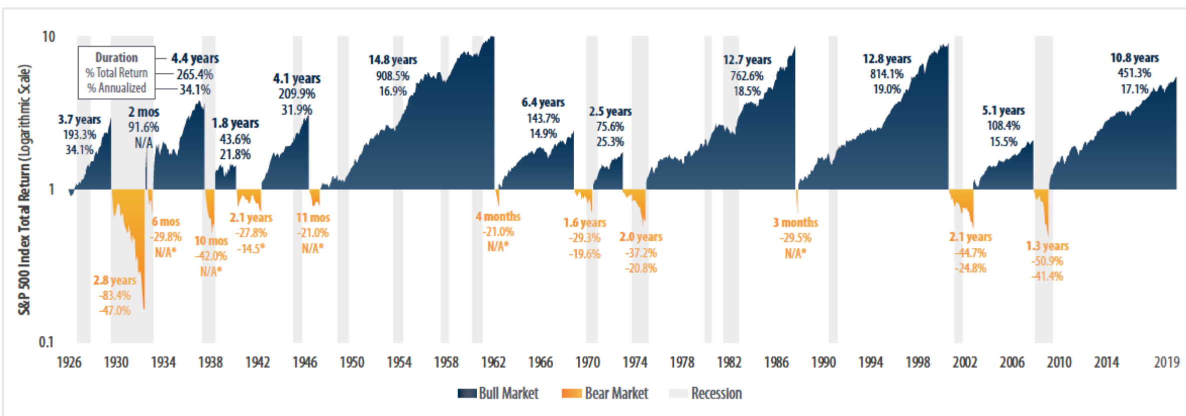
March 27, 2020

Coronavirus: Some things remain the same, *by Raymond H. Bovich, CFA*

Last week we wrote that "This time is different." That is still the case. The underlying cause of the current market turbulence is different from that of the 2008 Financial Crisis. The market reaction is different from 2008. And the path out of the current environment will be different than 2008.

So, what remains the same? The markets have always recovered. A disciplined investment strategy is always best. Economic behavior determines investment outcomes.



Source: First Trust Advisors L.P., Bloomberg. Returns from 1926 - 2019. *Not applicable since duration is less than one year.

From 1926 through 2019, the S&P 500 experienced 11 Bull markets lasting more than 12 months. These Bull markets had an average duration of 4.4 years and average cumulative returns of 339%. In contrast, there were 7 Bear markets with durations greater than 12 months. These Bear markets had average durations of 1.3 years and an average cumulative loss of 38%. The markets have always recovered.

In turbulent environments investors often consider selling and moving to less volatile investments. Their intentions are to buy back into the market when conditions improve. History shows that such market timing is often unsuccessful. History shows that a disciplined investment strategy offers the best results. The chart below shows the impact missing the market's best days.

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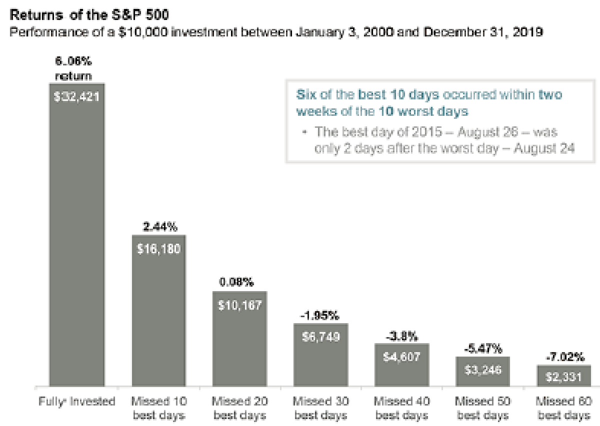

As the markets reset to the next normal, we need to be prepared. We need to consider how economic behavior may have changed. Technology companies have supported the work from home effort. Pharmaceutical and bio-tech companies have shown value by developing tests and treatments necessary to combat coronavirus. Manufacturers with shorter supply lines have shown greater flexibility as they pivot to manufacture supplies in high demand. In contrast many industries have been shown vulnerable to sudden economic interruption. Next normal investment strategies need to reflect these lessons. Work with your advisor to ensure that your portfolio reflects the next normal.

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Source: First Trust Advisors L.P., Bloomberg. Returns from 1926 – 2019. *Not applicable since duration is less than one year.
These results are based on monthly returns–returns using different periods would produce different results. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.
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Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2019.

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