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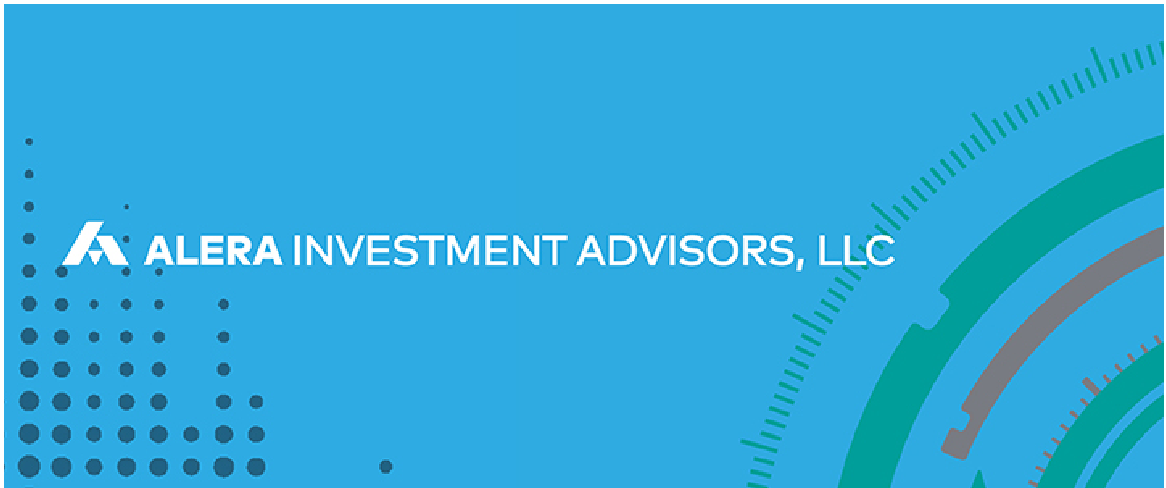

Special Market Alert

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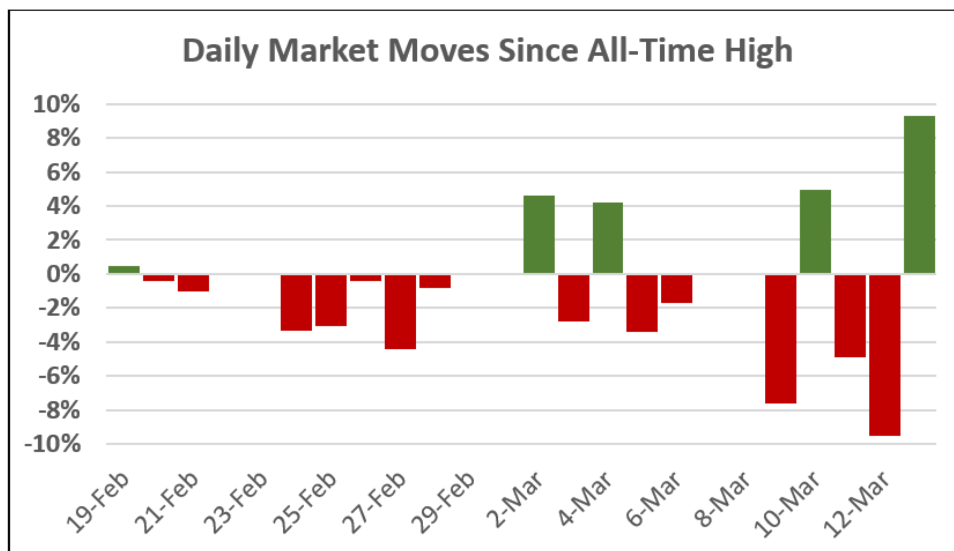
CURRENT ECONOMIC CONDITIONS

- Every trading day during March has experienced a gain or loss greater than 1%, including an upswing of almost 20% from the current bottom this past Thursday to the market close on Friday, March 13th. As of this writing, Monday's futures market points to another volatile trading day for the stock market.
- The uncertainty surrounding the potential impact of the coronavirus has been the primary cause for the stock market volatility since the all-time high on February 19th.



Source: Yahoo Finance, S&P 500 Index – Price only

- In a special meeting Sunday, the Federal Reserve announced a significant intervention in the credit markets including a reduction of the Fed Funds rate to 0% and an injection of $700 billion of quantitative easing. This is on top of $1.5 trillion in repurchase of short-term money market instruments. This is intended to provide liquidity to the financial system and help businesses continue funding their operations through the crisis.

BOND MARKET

- In times of uncertainty, the bond market can provide investors a relative safe haven from the volatility in the stock market, especially within US treasuries. With the reduction just announced, the Federal Reserve will have lowered the Federal Funds rate from 1.5% to 0% since the beginning of March. This effectively provides financial institutions with no interest loans from the Federal Reserve so they can continue to finance corporate cash flows.
- The bond market has responded favorably to the Fed's action thus far, causing treasury bond interest rates across the yield curve to rise slightly from the historically low levels early last week. Yields on the 10-yr Treasury bond rose from all-time lows from below 0.50% to 0.95%.
- Credit risk for lower quality bonds is under pressure from the potential of an economic slowdown due to this crisis. More specifically, with 40% of the US junk bond market tied to energy related enterprises, the recent drop in oil prices has sent the prices for junk bonds into a tailspin as the market looks for rising defaults due to unprofitable producers.
- While some may be quick to assume that the Russians and Saudis will quickly find a mutually beneficial agreement regarding oil prices, the price and supply of oil is no longer dominated by OPEC and Russia as it once was. There are two market forces that they may not be able to control now: the quickly falling demand due to the global economic slowdown and the many new oil producing nations, including the US, which will help to keep supplies high and prices low.

Ice Data Indices, LLC, ICE BofA US High Yield Index Option-Adjusted Spread, retrieved from FRED, Federal Reserve Bank of St. Louis; March 15, 2020

STOCK MARKET

- The stock market has experienced the quickest bear market in history. Every day this month the market moved up or down by at least 1%. This includes the significant rise from Thursday's market bottom to Friday's market close.
- Over the past 120 years, there have been 20 separate times when the stock market dropped at least 20%. The market's history includes the 1918 Spanish flu, the Great Depression, the World Wars, stock market crashes, recessions, and the financial crisis, among others. EVERY single time the market has fallen by 20% or more, the market found a bottom and the next bull market began.

	Average Returns Following Decline in S&P 500 Price Index					
			Annualized			
Percent from High	**3 Months**	**6 Months**	**1 Year**	**3 years**	**10 Years**	**20 Years**
0%-5%	2.0%	4.1%	8.3%	8.3%	6.6%	6.1%
5%-10%	1.8%	3.6%	7.1%	6.8%	6.4%	6.5%
10%-15%	2.2%	3.6%	7.1%	6.7%	7.6%	8.0%
15%-20%	0.9%	1.7%	9.3%	5.7%	8.5%	9.1%
20%-25%	1.3%	3.5%	9.5%	8.4%	7.9%	9.0%
25%-30%	2.4%	3.8%	8.4%	8.5%	6.9%	9.6%
30%-35%	5.2%	8.6%	13.7%	9.3%	7.0%	9.0%
35%-40%	1.7%	7.8%	14.0%	9.5%	7.2%	9.5%
40%-45%	4.6%	13.7%	23.8%	12.2%	8.2%	9.9%
45%-50%	8.7%	19.2%	34.8%	16.0%	10.0%	10.4%
50%+	24.2%	36.8%	53.1%	22.7%	14.2%	n/a

Source: Ycharts, Michael Blatnick

PORTFOLIO STRATEGIES

- Times of market stress have historically offered a significant opportunity for investors to buy at lower prices, whether by investing new cash, rebalancing to current targets or increasing the risk profile of the current portfolio allocation. We are rebalancing our portfolios to take advantage of this opportunity.
- Investors who are concerned about the current volatility in the stock market may look to increase exposure to bonds. Given that interest rates are likely to stay low for an extended period, we are increasing our duration to be closer to the benchmark. We are keeping the general credit quality of the portfolio higher than the benchmark to provide stability to the overall portfolio during times of market volatility. Given the heightened credit risk, we have purposefully avoided investing in funds that focus on junk bonds within our bond allocation. Falling interest rates have provided positive total return year-to-date and for the past 12 months for our bond strategies.
- The portfolio for each of our investors is allocated between growth and safety based on their own tolerance for risk in the short run and their desire for long term upside potential. Determining the appropriate risk-reward trade-off is the most important decision for advisors to help with investors. Once determined, the decisions about the underlying investments then becomes the focus. Using quantitative and qualitative analysis, we select the securities that make the most sense for each asset class within each portfolio.
- We continue to focus on the goals, objectives and risk profile of each of our clients and manage our client portfolios accordingly. Investors should have their portfolio constructed for the level of risk and volatility with which they are comfortable, whether the risks are typical of economic cycles or “black swan” events.

Talk to your advisor if you have any questions.

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