

WEEK IN REVIEW

Friday, March 13th 2020

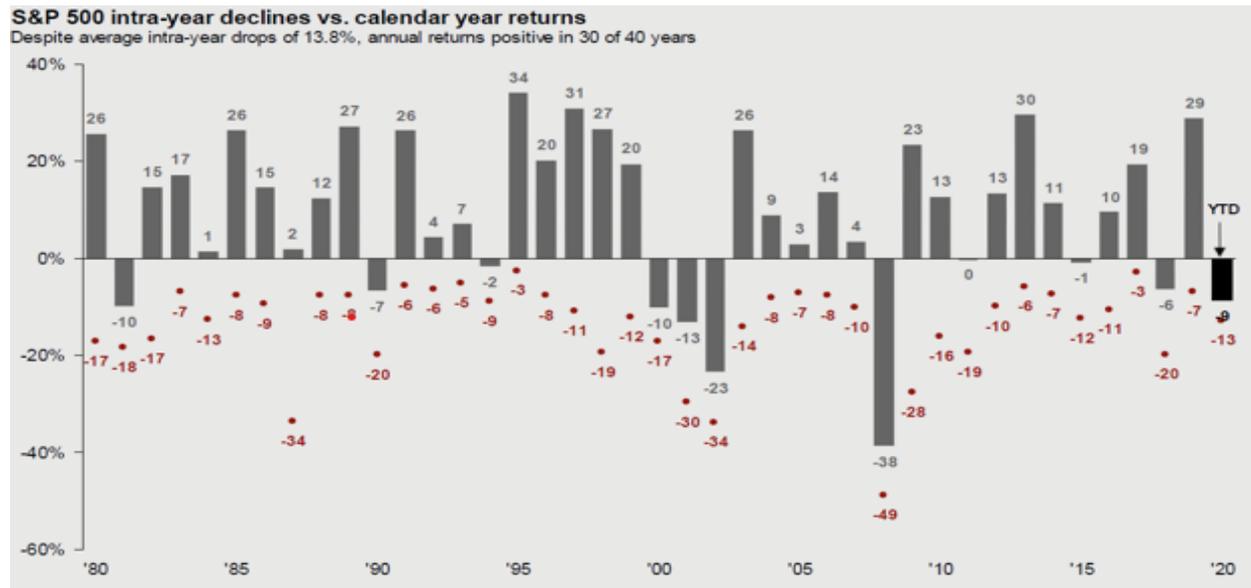
The greatest challenge that market participants face is engendering change when the trend is up... which is quickly superseded by the difficulty in holding steady when the trend is down. These past three weeks have been another test of investor resolve in a string of events spanning many decades: Black Monday 1987, LTCM crisis of 1998, the TMT collapse of 2000, 9/11, the GFC of 2008, the sovereign debt downgrade of 2010, the taper tantrum of 2015, the energy meltdown of 2015, and recessionary fears of 2018.

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- Market commentators have attributed various reasons to every uptick and downtick since the onset of negative momentum beginning on February 20th.
- The primary headline that continues to steer market behavior, centers on the spread (or containment) of the coronavirus and its impact on global productivity.
- There has been some relief in the form of political accommodations, concerted infusion of liquidity, and talks of fiscal and taxation relief policies.
- However, broad concerns will not abate until there is evidence that infections begin to taper on a global basis.

While we cannot predict how long the headlines will persist and the prevalence of its spread, we know there will be continued and concerted action on the part of world's policymakers to counteract the damage to public health and economic stability. With that as the backdrop, we know that markets will recover as it has in past challenges. A closer examination of the following chart demonstrates what we have internalized over past cycles – that the average period of the past 11 equity bear market cycles over the past 100 years has been 18 months, with an average decline of -40%. The average subsequent recovery of returns for those periods have been 147%.

Past performance is not a guarantee of future results with the content that presents market history.



Source: FactSet, Standard and Poor's, JP Morgan

As investors, our possible reactions to the current volatility can take form in several ways: raise cash, spend cash, or stay put. We raised cash several months ago to fulfill dual goals of risk diversification and allocating to reserves for future deployment. For now, we are staying put as we monitor the market for opportunities. While we all hope that a vaccine or cure is announced, or the CDC or WHO proclaims an abatement of the illness, it's much more likely that the headlines will be a mixture of both alarming and calming influences for months to come. This strengthens our views relating to consistent diversification, both within and across asset classes. Said in different terms, tactical timing of trades requires a heavy dose of luck to be of any benefit, especially in the early stages of a de-risking cycle.

Counting on 'luck' as an investment discipline is not a great strategy. We will continue to provide frequent market updates and are, as always, available by phone or email.

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