A Market Perspective: Update

March 6, 2020

As we come to the end of another stomach-churning week in the financial markets, I want to reach out again. As of last night's close, the S&P 500 is down 10.9% after reaching its all-time high just over two weeks ago, bringing it to a level from late-October 2019. The correction has been blamed almost entirely on the Covid-19 virus that has dominated headlines in recent weeks, resulting in sharply-heightened volatility as markets react to almost-hourly headlines. Adding to the anxiety about the markets is the concern we all feel about our own health and that of our friends and family.

While the 2019-20 flu season has resulted so far in 14,000 deaths and 250,000 hospitalizations in the US without a change in our day-to-day habits, much of the impact of Covid-19 is the result of the very precautions people are taking to minimize their risk of contracting it. These measures, not the virus itself, are what are causing the most economic impact and are raising the risk that growth declines in the next quarter or two. With growth at an already low level in the US, as well as globally, the odds of a recession increase.

The short-term visibility around the impact of the virus remains incredibly opaque, and uncertainty is the enemy of markets. We have seen this over the last two weeks. So while historically markets have experienced all types of drawdowns, from geopolitical ones such as the aftermath of 9/11, to the full-blown financial crisis of 2007-08, the one thing we do know is that markets recover. The speed of this decline leaves open the possibility that the rebound also happens quite quickly, as the impact of global monetary easing, pent-up demand and fiscal stimulus takes hold.

The stock market correction has caused a massive flight-to-safety demand for US Treasuries, resulting in a 10-year Treasury yield of 0.7%, the lowest level in history (as bond prices rise, yields decline). This makes a very compelling case for stocks, maybe not in the next week or month, but over the long run, especially those that have dividend yields higher than what an investor could receive from comparable bonds. On a positive note, this low yield also has resulted in a drop in mortgage rates that likely will provide support to the housing market and the consumer.

The bull market that started at the end of the financial crisis is the longest on record. However, during that time, there have been several deep corrections (>10%) and recoveries. While no two corrections are exactly the same, the information below may provide some context around what is happening now:

Market Peak	Trough	Recovery	Drawdown %	Peak-Trough	Peak-Recovery
04/23/2010	07/02/2010	11/04/2010	-15.99%	2.3 months	6.5 months
04/29/2011	10/03/2011	02/24/2012	-19.39%	5.2 months	10.0 months
5/21/2015	02/11/2016	07/11/2016	-14.16%	8.9 months	13.9 months
1/26/2018	02/08/2018	08/24/2018	-10.16%	0.4 months	7.0 months
9/20/2018	12/24/2018	04/23/2019	-19.78%	3.2 months	7.2 months

Of course, all of us at 1919 Investment Counsel are monitoring the Covid-19 situation closely. It is the risk of an event such as this that accounts for our ongoing emphasis on asset allocation and a long-term investment horizon. Please let me know if you would like to talk in more detail about this update or about your portfolio.