Coronavirus: What should investors do?

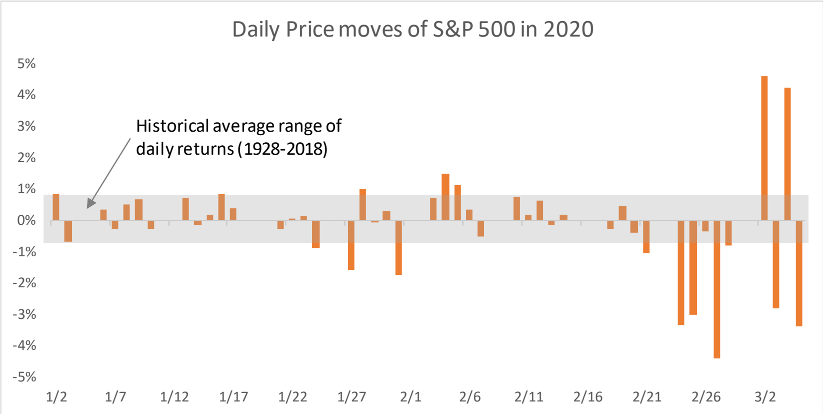
March 9, 2020

As markets respond to COVID-19 outbreaks around the world, investors wonder what's next?

US stock markets have dropped 12.2% from their record highs on February 19[1]. Investors may be wondering how much lower they may go, or if they should get out of the markets and wait it out. Although these actions may give investors a sense of control over their investments, in reality, may be more damaging than doing nothing.

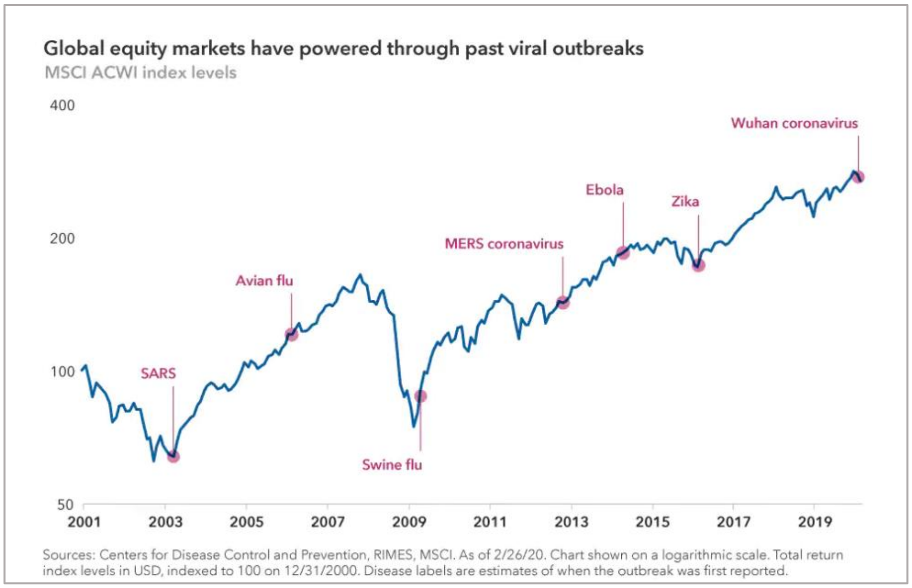
As investors become more pessimistic and worry about the expanding coronavirus outbreak, the Federal Reserve made an unscheduled interest rate cut to try and steady the economy. This added to market worries and treasury yields fell below 1% on March 3, 2020 – the first time in history.

Investors remain concerned and are flooding to safer and more liquid assets. Bond yields are falling, and gold is rising. Concerns about the lasting effects of the virus on the global economy weigh on investors' minds as each day they read headlines about new cases being identified around the world. But there are a lot of unknowns that investors are worrying about today creating market volatility – something we haven't seen for some time. The chart below shows the extreme daily price movements we've seen in the past couple of weeks compared to the beginning of the year and the historical average range.



Source: Bloomberg

The unknowns will eventually fade and be part of the history books and markets will recover – we've seen that playbook before. The chart below shows previous global viral outbreaks and the subsequent stock market performance. In every case we can see that the market shook off the virus news and marched onwards.



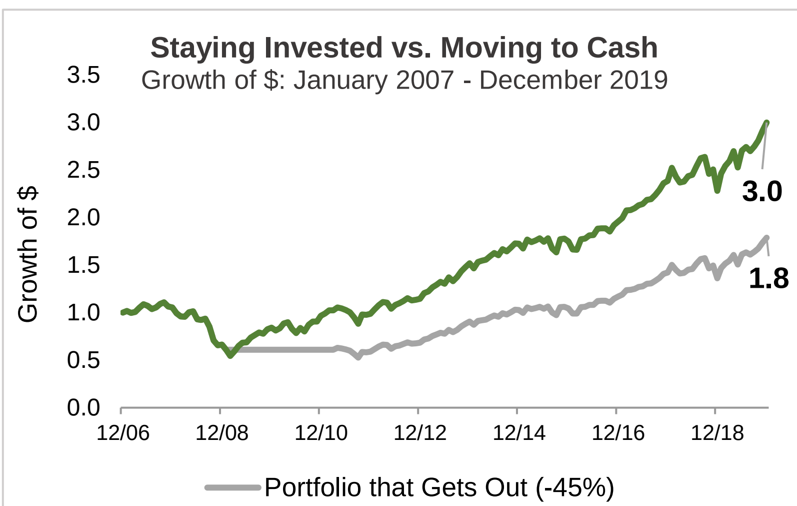
Source: Capital Group

What is critically important is that we need to make sure portfolios can weather today's environment and be ready to benefit from the rebound, which is typically when some of the largest returns are seen in the market.

What should I do?

The question "should I get out of the market?" comes with a second, harder question – "when should I get back into the market?".

The chart below displays the impact of withdrawing from the markets during the financial crisis of 2008 and waiting to re-enter until the market reached its prior high. This meant that the investor missed the first part of the rebound, which saw some large returns as the market recovered.



Source: AssetMark

An investor who withdrew from the markets saw a significant difference in their portfolio value from sitting in cash for two years waiting for the market to recover.

What questions should we be asking…

- How did I react in the last market carnage?
- Will my lifestyle be meaningfully impacted if stocks continue to fall?
- Have I underestimated my appetite for risk and taking too much risk in my portfolio?
- Does my portfolio match my willingness, need and ability to take risk?
- Is my portfolio durable and diversified enough to withstand severe dislocations in the stock market?
- What do I own and why do I own it?

Based on your response to these questions, it may lead us to make changes to a portfolio, maybe to shift down a risk profile by adding some more-conservative strategies or using strategies that are more tactical and can de-risk their exposures in times of market stress. Or it may lead us to add risk to your portfolio and to take advantage of buying opportunities if money is not needed today and invested for the long-term.

[1] Stocks are represented by the S&P 500 Index, from February 19, 2020 through March 6, 2020.

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IMPORTANT INFORMATION

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