March 27, 2020

Modest Relief, But Patience Still Required

Despite lingering volatility, the past week provided modest relief as US stocks bounced back and finished the week higher. The indiscriminate selling and extreme panic of the prior week gave way to bargain hunting. More economically sensitive stocks fared better during the rebound compared to defensive sectors and investment grade corporate bonds also improved, both encouraging news. Such signs of risk-taking are the first signals that a bottom in the market is forming.

Patience is still required even with these positive signs. During bear markets (defined as a stock market decline of 20% or more), strong rallies of 15-25% are not uncommon but can give way to renewed selling. We still believe bottoming is a process that may take more time before a lasting rebound ensues. Sharp, violent selloffs, like the current episode, usually take a few weeks to months to resolve. We do not know when, or if, the ultimate market bottom is in place, but we do find stock valuations attractive for long-term investors and particularly so relative to high-quality bonds.

Over the coming days and weeks, investors will need to brace for more weak economic data that reflects the impact of widespread restrictions and "shelter-in-place" ordinances. This past week claims for unemployment benefits surged to over three million, more than three times higher than the previous peak in 1982. Additional reports are likely to make attention grabbing news headlines. And of course, the number of Covid-19 cases is likely to continue to rise, particularly here in the US as testing continues to ramp up.

Financial markets are forward-looking, however, and bad news or the anticipation of it, is often factored into stock prices in advance. On Thursday, the fact stocks moved higher despite the jobless claims data is a reminder. Sharp stock market declines in prior weeks had already reflected a hefty dose of bad news.

While we await negative headlines, it is important not to downplay good news. The passage of a $2 trillion stimulus package in Congress will provide important support to businesses and workers adversely impacted by the virus. This stimulus is more than double that of 2009 in the aftermath of the financial crisis and provides noteworthy economic support.

Additionally, the Federal Reserve's (Fed) response is now more robust than during the 2008 financial crisis. After announcing emergency rate cuts and a renewal of bond purchases almost two weeks ago, the Fed has continued to be active, launching a variety of targeted lending facilities and liquidity measures to help ensure better functioning of financial markets. In the past several days, the benefits of these measures have become evident in financial markets and the sheer dollar volume of support will continue to provide benefits in the coming weeks and months.

Negative headlines may pose a headwind for stocks but remember that the stock market has historically rebounded before the end of bad economic news. Trying to time the market is futile and it's better to recognize value as it arises. As always, we remain committed to a diversified investment portfolio and rebalancing where appropriate. Through these challenging times, we reiterate the importance of staying committed to your investment plan and your financial goals.

Please contact a Relationship Manager if you have any questions or concerns.

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