March 9, 2020

The tough times that global markets were experiencing due to the spread of COVID-19 (coronavirus) worsened this past weekend as a price war between Saudi Arabia and Russia resulted in sharply lower oil prices. The news could not have a come at a worse time for already nervous markets and the combination of events is testing investors' patience.

We need to remember that volatility is normal in the stock market with an average intra-year decline of nearly 14% from peak-to-trough since 1980. In recent years such moves have become less frequent, but the current episode is approaching bear market territory, defined as a cumulative drop of 20% or more. Such market drops are more often fueled by the fears of a recession, rather than a recession itself. Similar declines occurred in 2018, 2016, and 2011 without a recession ensuing and stocks eventually recouping losses. While recession risks have increased, the current drop in stock prices has already factored in a lot of bad news.

While there are certainly concerns that are eroding investor confidence, we should not lose sight of potential positive catalysts and countervailing forces to an otherwise nervous market. First and foremost, when stock prices fall significantly, markets are not only pricing in bad news, but also providing an attractive entry point for long-term investors. Second, markets have built in "shock absorbers," since short-term negative news can lead to longer-term positive outcomes. For example, lower oil prices will eventually result in lower gas costs and more money in the pockets of consumers.

One common market axiom is that "the first cut is the deepest," which implies that when concerning news first breaks, like the first reports of the spread of COVID-19 or a major drop of oil prices, markets immediately react intensively, but each additional piece of news becomes less impactful. In other words, the news doesn't have to be good to lift stocks—it just has to be less bad. To apply this to what we are currently experiencing, historically in pandemics, stocks have usually begun to recover as the number of new diagnosed cases stabilizes, not necessarily even declines.

In times like these, our natural inclination can be to sell. But we know this difficult environment—while scary for all of us—is temporary. History has taught us that rampant volatility creates opportunities—we experienced this in 2008, 2011, 2016, and most recently, in December 2018. When market prices disconnect from underlying fundamentals, invariably the best decision for long term investors has been to stay the course.

Though it can be difficult to focus on the long term at times like these, we believe this is one of those situations where eventually we will look back at it as a unique opportunity. Envisioning ourselves in that position in the future isn't easy right now. It was hard to see green shoots in 2008, when few could envision the emergence of a positive market coming out of the financial crisis. Those who sell in a market storm rarely notice when the storm clouds begin to lift. And, as investors, missing those stock market rebounds is perhaps the biggest risk to achieving our long-term goals.

We don't know exactly when this market will find a bottom and reverse course. Markets are facing a crisis of confidence. But, our confidence in the long-term fundamentals and prospects for the US economy and corporate America is unwavering. We will get through this. We believe that patience will be rewarded.

Please contact a Relationship Manager with any questions or concerns.

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