

Market Bulletin



March 18, 2020

At CLS, we're dedicated to providing clear and consistent investment insights—especially during times of market uncertainty and volatility. Below is a summary of our market perspectives as of today.

What We Know

The Not So Good

- Global stocks have officially entered a 'bear market', down more than 20% from all-time highs on 2/19/20.
- We believe the volatility in stocks and bonds will be with us for the foreseeable future.
- Correlations of assets classes tend to rise in short-term panics like this.
- We expect big up days to occur around big down days.
- Condition yourself to see large swings cluster together for a little while longer.

The Good

- Unprecedented monetary/fiscal policy may set the stage for a sharp rebound.
- Testing for the virus is expected to increase. This increase in testing along with the strength of the U.S. healthcare system may have an immediate impact.
- Discount energy prices will help the main street consumer.

Historical Precedents for Times Like This Suggest Gains

- After drops of 20% or more, markets have historically provided positive gains a year later. (*source: Morningstar*)
- When sentiment is bearish and the VIX (volatility index) is high, the market has had positive forward returns. (*source: NDR and Morningstar*)
- Past virus outbreaks have shown to have a short-term impact on markets. (*source: Vanguard*)

What We Don't Know

How Large Will the Global Economic Impact Be

- We think you should expect 2Q contraction in GDP.
- Most estimates show positive expectations for 1st, 3rd and 4th quarter global GDP (this is expected to change as information starts to be released).

When the Market Bottom Will Be

- Likely when infection rate plateaus or stalls.

What Should Advisors/Investors Do?

- We should communicate, communicate, communicate.
- If goals and risk tolerance haven't changed, no action may be the best action.
- In taxable accounts, take tax losses.
- Read thoughtful, positive material.

Common Investor Questions We Have Been Getting

“Is now the time to put money into investments, or should I wait?”

- We don't know when the market will bottom or volatility will end, but various indicators suggest that answer is “yes” to invest long term.

“I'm getting close to retirement and my investments have taken a hit these past couple weeks. Will I have time to recover if I stay in the market?”

- It depends on how your goals and risk tolerances have changed
- Bear market recovery times are often faster than many expect.

“I saw that the Fed injected money into the system. Are banks still safe? Should I be thinking of taking money out of the bank?”

- The overnight fixed income market has needed liquidity. The Federal Reserve has been proactive on this issue.
- Banks are financially strong: Better capitalized less bad loans, less levered and overall in much better shape to lend than during the 2007-2009 downturn.

“Do you expect the economy to go into recession?”

- A recession is defined as two quarters of negative growth.
- The odds of a recession have increased.
- Stocks have already been expecting this and pricing in this news in.

What CLS is Doing for Business Continuity

- Omaha, NE (Location of CLS Headquarters)
 - *Minimal infections are being reported in Omaha, NE at this point.*
 - *Economic impact in Omaha will be large given event cancellations of Berkshire Hathaway Shareholder meeting, Men's NCAA Basketball Tourney and Men's Baseball College World Series.*
- In order to better protect our employees and better serve our clients, all employees—with the exception of a few essential roles—are working remotely.
- CLS is working harder than ever – more research, more trading.
- Now is a great time to be an investment counselor.
- Now is a great time to be an investment manager.
 - *The global stocks market is on sale.*
 - *Volatility also creates opportunity.*

If you have any questions, please contact a member of our investment team.

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