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Investment Market Review
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The longest running bull market on record came to an abrupt end in March. Stocks plunged as the coronavirus spread from a Chinese province to other parts of Asia, Europe, and the U.S. The stock market declines were sharp and swift. It took a mere 6 days for the S&P 500 to fall 12% and another 10 days to reach a cumulative decline of 26.7%. 23 days after closing at a new all-time high, the market had fallen 33.9%, the fastest drop of this magnitude in history.

What initially appeared to be an isolated event in China rapidly became a pandemic with confirmed cases of the virus on every continent except Antarctica. The shift from COVID-19 being initially perceived as an isolated event to becoming a global pandemic that nearly brought the global economy to a halt is one of the more sudden and unexpected shifts in human history. This has truly been an unprecedented global event compressed into a relatively miniscule time-frame, with every economic sector and industry negatively impacted to varying degrees.

Volatility in the stock market spiked dramatically and suddenly as the correction unfolded. The S&P 500 posted its worst single-day decline since 1987. There were 8 consecutive days in March when the market closed up or down more than 4%, contributing to what would become the most volatile month on record for the index.

Large swaths of the economy were placed on lockdown as entire countries implemented quarantines and governors in the U.S. issued “shelter in place” orders. Schools were closed and workers were forced to work remotely. Service industries were particularly hard hit. Demand for air travel evaporated, restaurants, bars and entertainment venues were shuttered, and the hotel industry suffered plunging occupancy or closed altogether.

The result of this economic upheaval has been a spike in unemployment claims that is unprecedented in its pace. Over 20 million people filed claims for unemployment benefits over the first four weeks of the lockdown. For comparison purposes, the number of initial jobless claims made over just the last four weeks is roughly 60% of the claims made during the entire recession in 2007-2009, which lasted 79 weeks.

Measures implemented to halt the spread of the virus created disruptive forces on the economy. As a result, The Federal Reserve and Congress announced massive fiscal and monetary programs designed to counter those disruptive forces. The Fed slashed interest rates to 0% and rolled out lending programs and asset purchases, reintroducing, and in some cases expanding upon, their efforts taken during 2008 and 2009 to calm financial markets.

Congress unveiled a $2 trillion stimulus package that included direct payments to individuals, expanded unemployment benefits, hundreds of billions of dollars in loans to small businesses, and resources for the healthcare industry. Similar to the speed with which unemployment spiked and stocks fell, the short amount of time that it took for the Fed and Congress to unleash this amount of assistance to the market and economy was remarkable.

It took more than a year during the financial crisis in 2008 for Congress to approve the $700 billion TARP program and another four months to pass additional stimulus measures. This time around it took only 2 months from the first diagnosed case of coronavirus in the U.S. until these aid packages were implemented. The Dow Jones Industrial Average registered its largest single day gain since 1933 as the stimulus package came together.

At least for now, the S&P 500 reached a low on March 23. Despite being the worst quarter for the index since 2008, the market was able to stage an impressive rally over the final week of the quarter, recovering approximately 30% of the losses suffered. As of this writing, the market has continued to push higher and has recovered more than 50% of the losses incurred in February and March.

It is a challenging time to make predictions about the near-term path of the economy and stock market. Economic statistics released over the next quarter will be dire, especially those related to unemployment and economic growth. The measures taken to combat the spread of the coronavirus have been a major shock to the global economy, but they also seem to be having the desired effect of "flattening the curve". The possible risk of the virus reemerging later this year is a risk that remains unknown.

What we do know is that the shock to the U.S. economy occurred at a time when the economy was otherwise healthy. This current episode is not the result of a fundamental breakdown in a segment of corporate America but rather the consequence of conditions imposed by government officials to save lives. There are positive developments regarding treatments and vaccines for coronavirus, which will be essential to prevent future outbreaks but will take time to be made available.

This event is temporary and will pass. The "new normal" may look different in some ways, but the economy will return with the vitality and resilience that have been defining characteristics for generations. Now more than ever, it is helpful to remember and appreciate the value of having a longer-term investment perspective. Short-term volatility is part of the cost of successful long-term investing; academic research supports this notion and wise investors ride out the bumps.

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