

# The Impact of COVID-19 on Global Economies and Markets

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# Presenter



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# AGENDA

**01**

HBKS's perspective on short-term and long-term economic impacts

**02**

Global monetary and fiscal stimulus measures

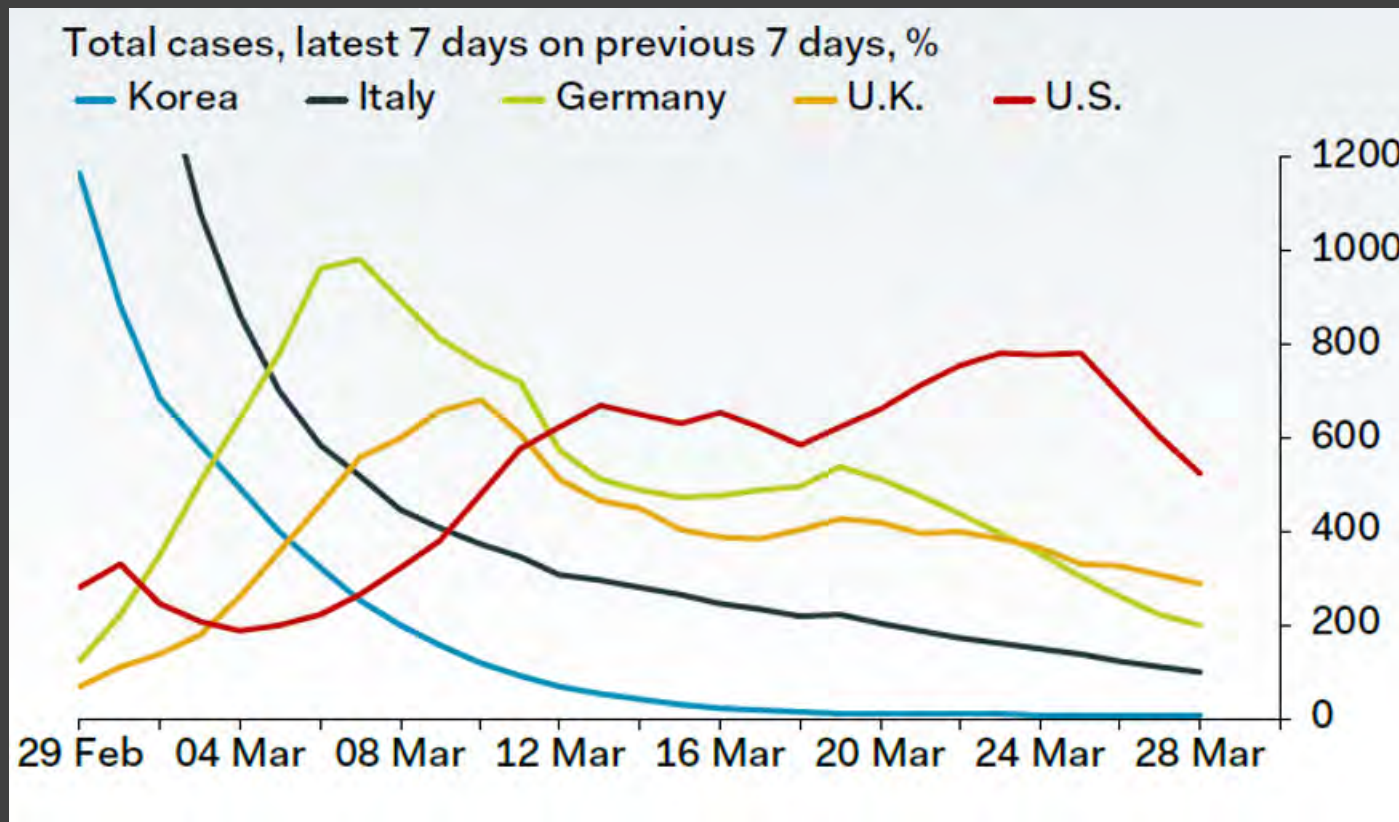
**03**

US Market recovery and what to expect based on history

**04**

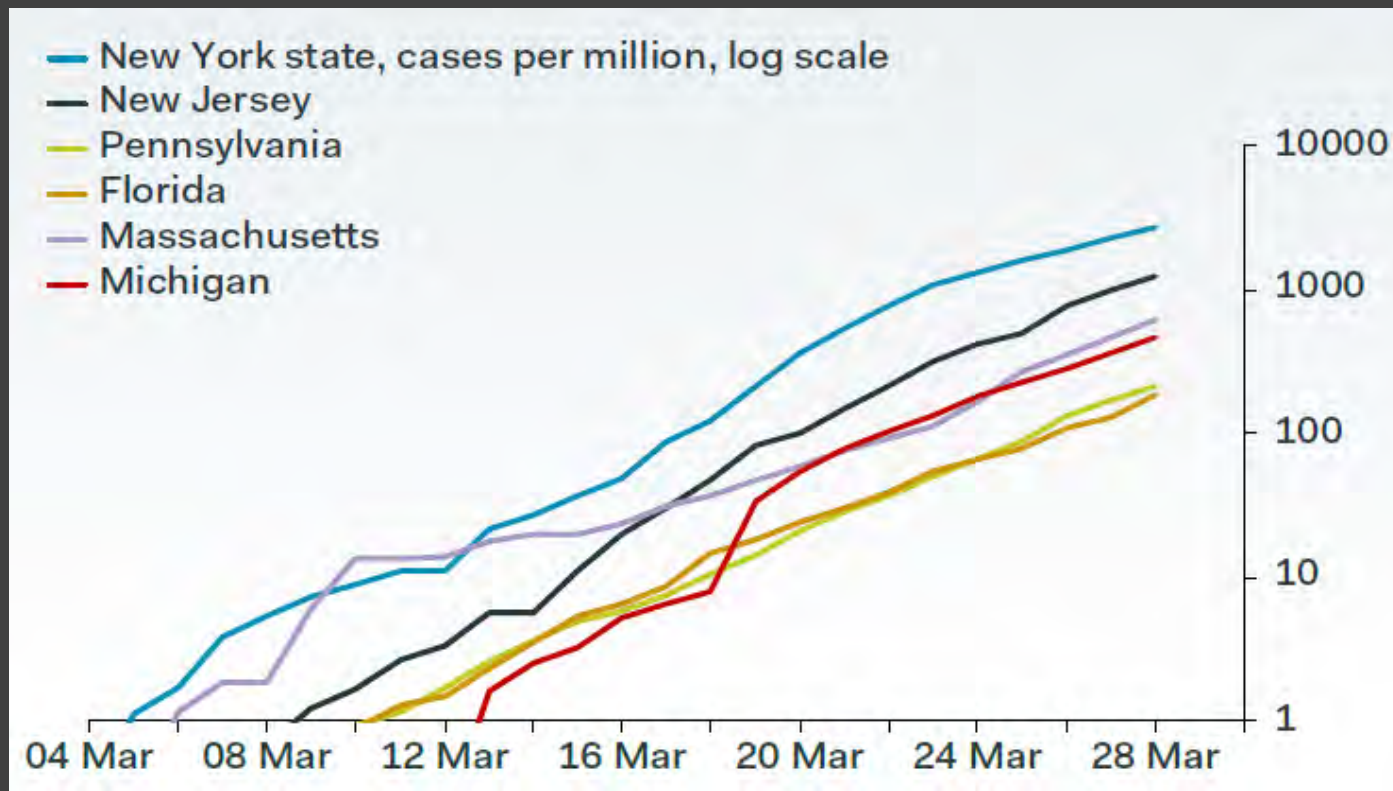
HBKS investment philosophy and process

# Case Growth Slowing in Europe; US Still High



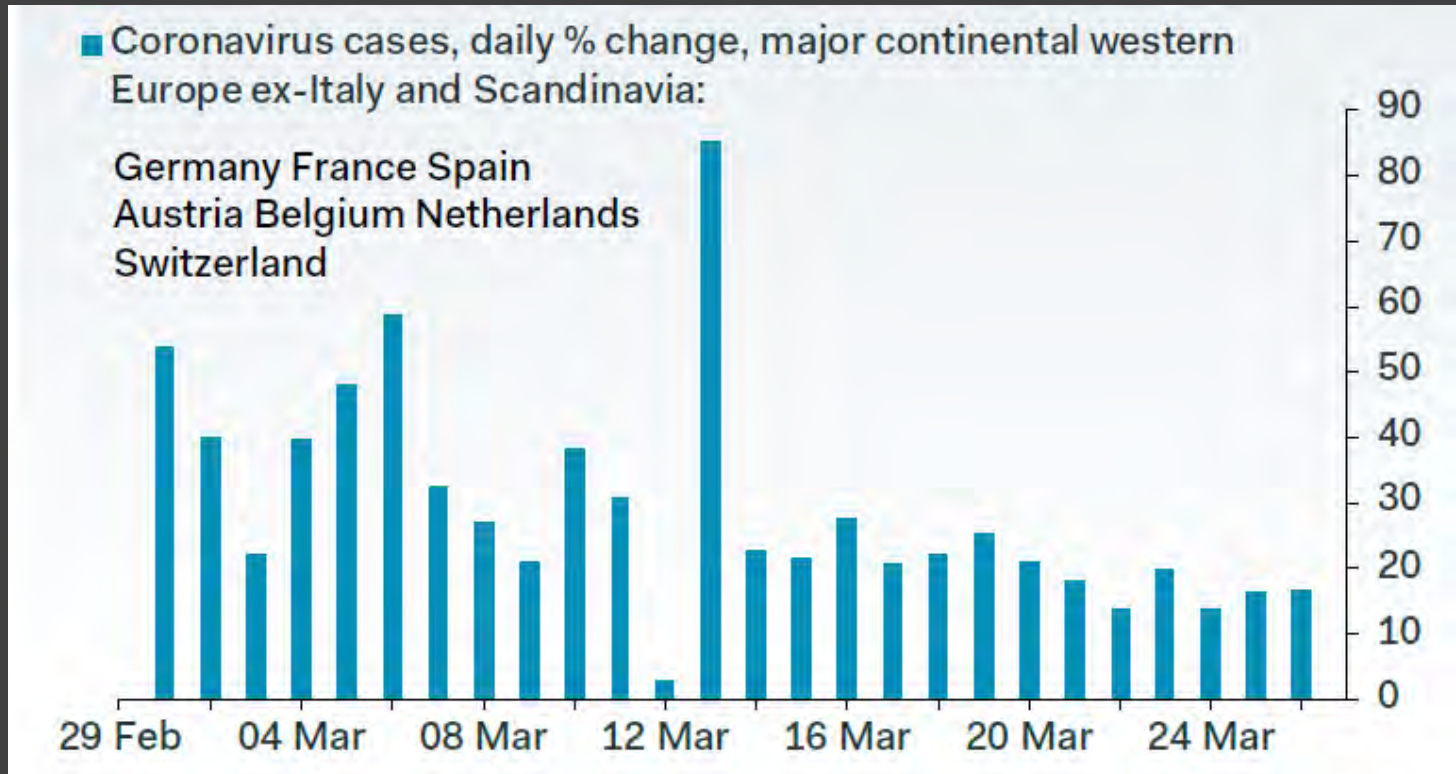
Source: Pantheon Economics

# Several Large States Have Exponential Outbreaks



Source: Pantheon Economics

# Case Growth Across Much of Europe Has Stabilized



Source: Pantheon Economics

# Social Distancing Impacts Daily Activities



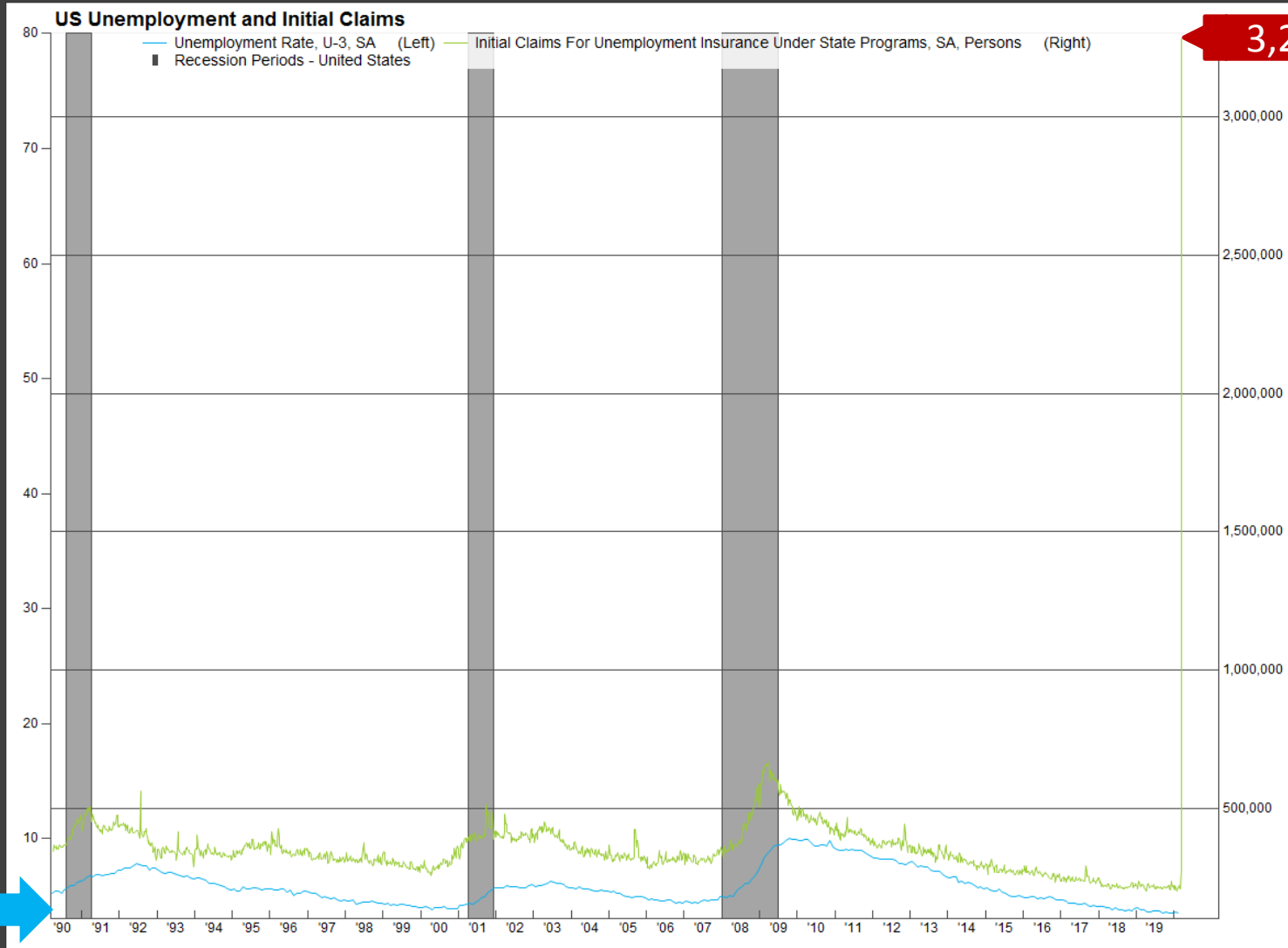
Limits on the number of people in restaurants and theaters

Convincing older Americans to continue self-quarantine

Encourage continuation of work at home

Limit on unnecessary travel to other states

# Historic Surge in Unemployment Claims





# Potential Short-Term Economic Damage



Global GDP could drop more than 10% in the 2nd Quarter 2020

Most recent estimates for GDP growth for Full Year 2020

- US estimates now 0.4% down from 2.0%
- Europe about 1.0% on average down from over 3.0%
- China 3.0% down from 6.0%

Corporate earnings likely to drop 15% to 20% in 2Q, but then rebound the second half of the year

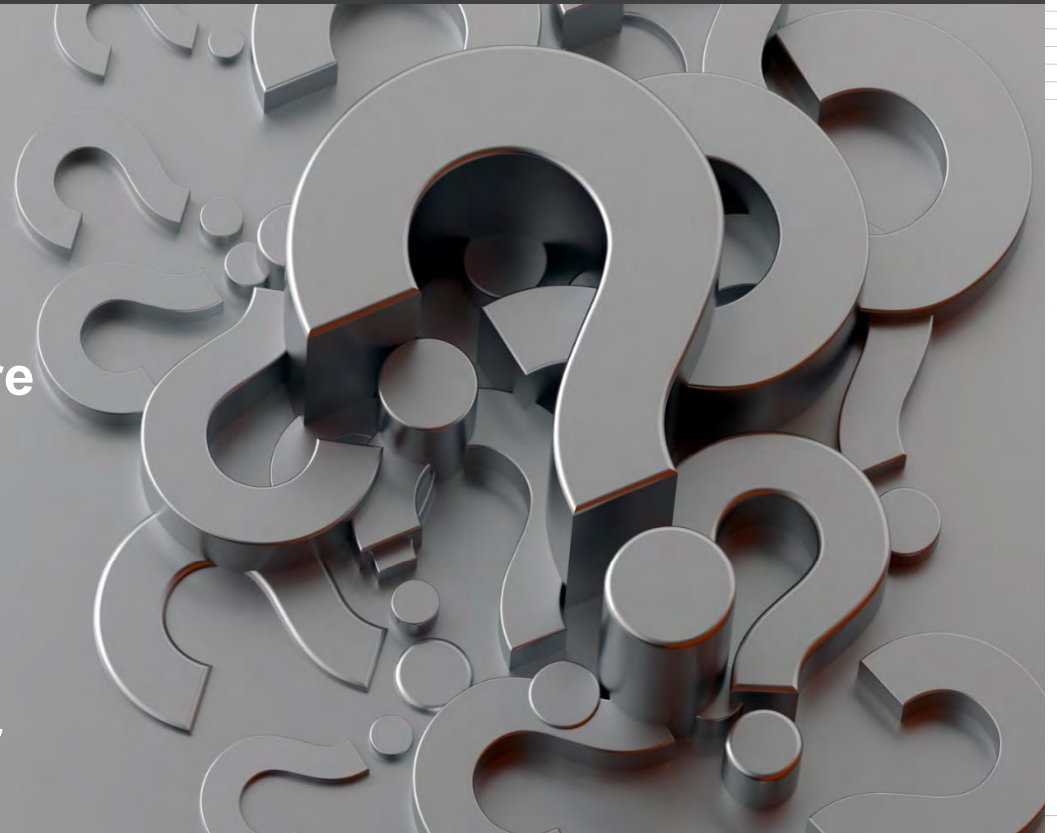
# Many Outcomes Are Uncertain

When will cases and mortality curves trend downward?

How much damage will be done to the economy before that happens?

How fast will business activity recover?

What will “normal” be after this experience?



# Longer-Term Economic Fallout

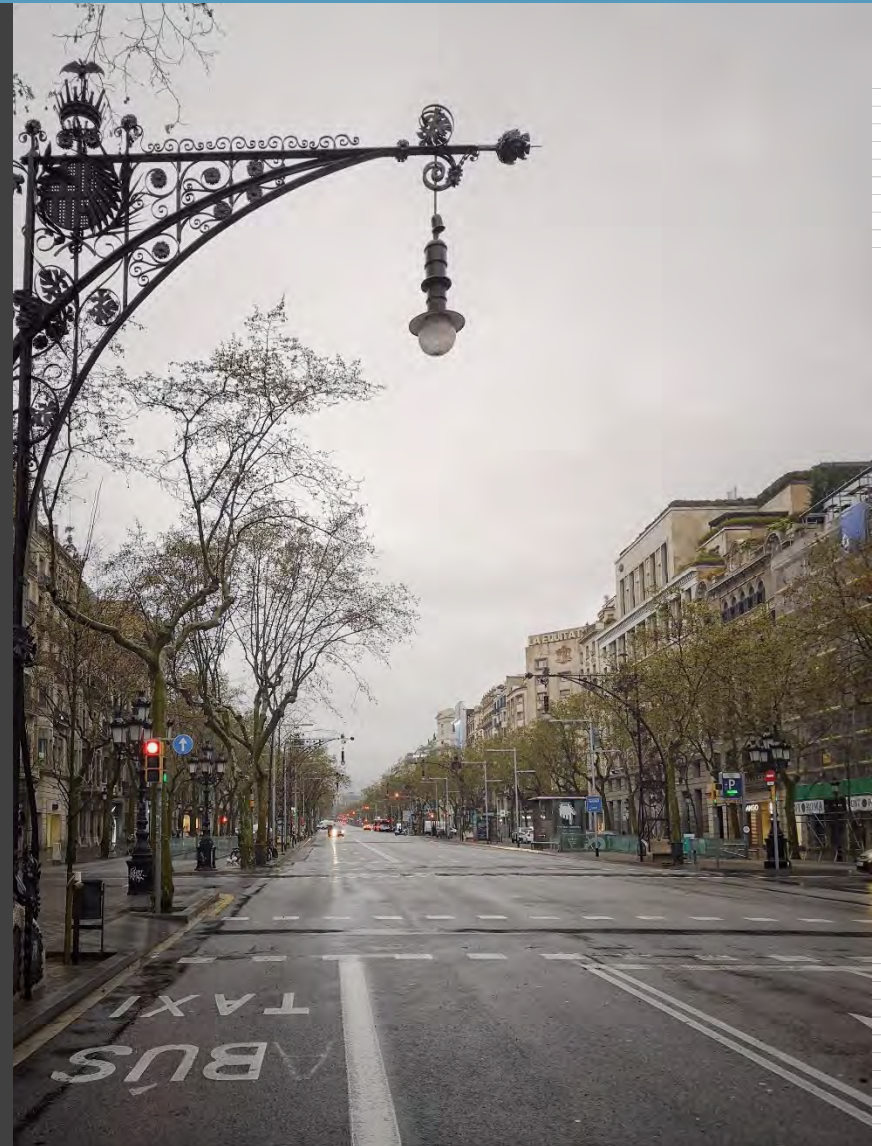
Global trade could take a hit indefinitely

Unemployment could remain elevated

Diminished trade and travel

Event cancellations

Disrupted corporate supply chains



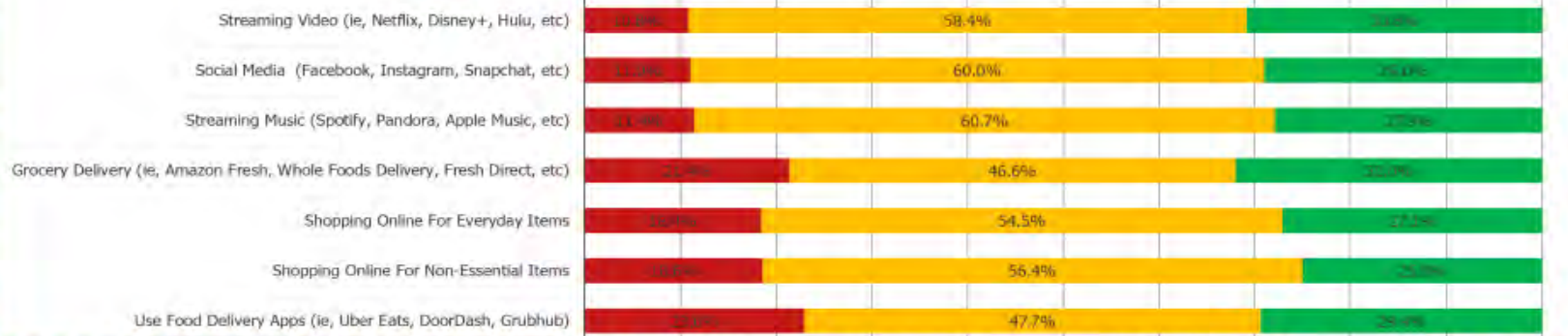
# Consumer Actions Could Delay Recovery

“Going forward, do you expect to do the following more or less often because of the Coronavirus and its impact to your life / the economy?”

POSED TO ALL RESPONDENTS WHO USE THE FOLLOWING / DO THE FOLLOWING

■ Less Than Normal ■ Same ■ More Than Normal

Net Positive Impact

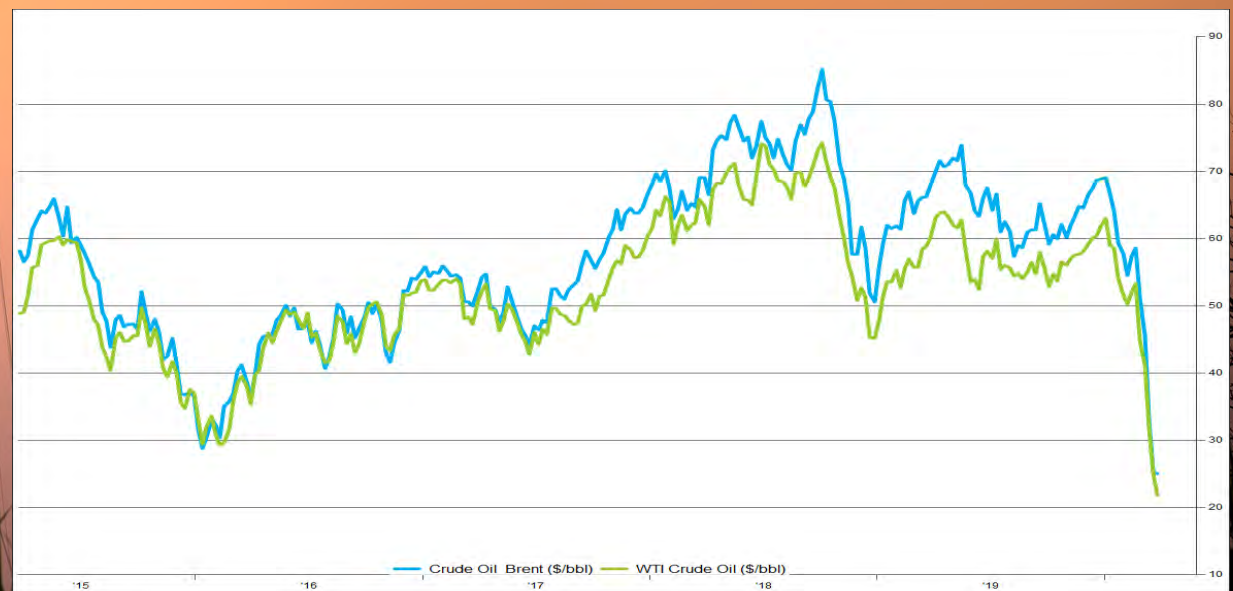


Net Negative Impact



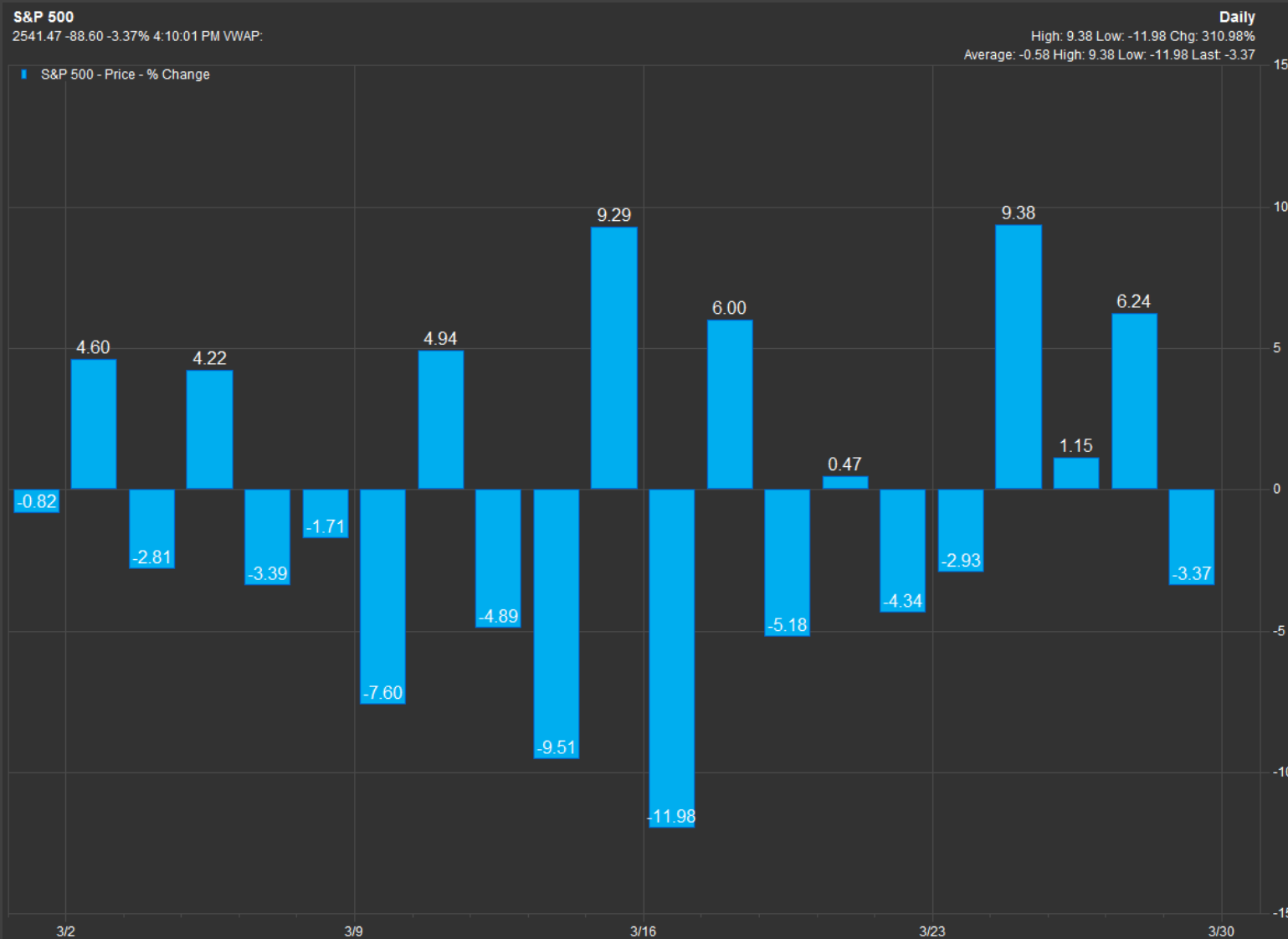
# Drop in Oil Prices Exasperated the Sell-off

- Russia and Saudi Arabia are using production to fight for market share
- Both countries flooded the world with oil
- The price of oil dropped more than 40%
- US producers may be the ultimate target



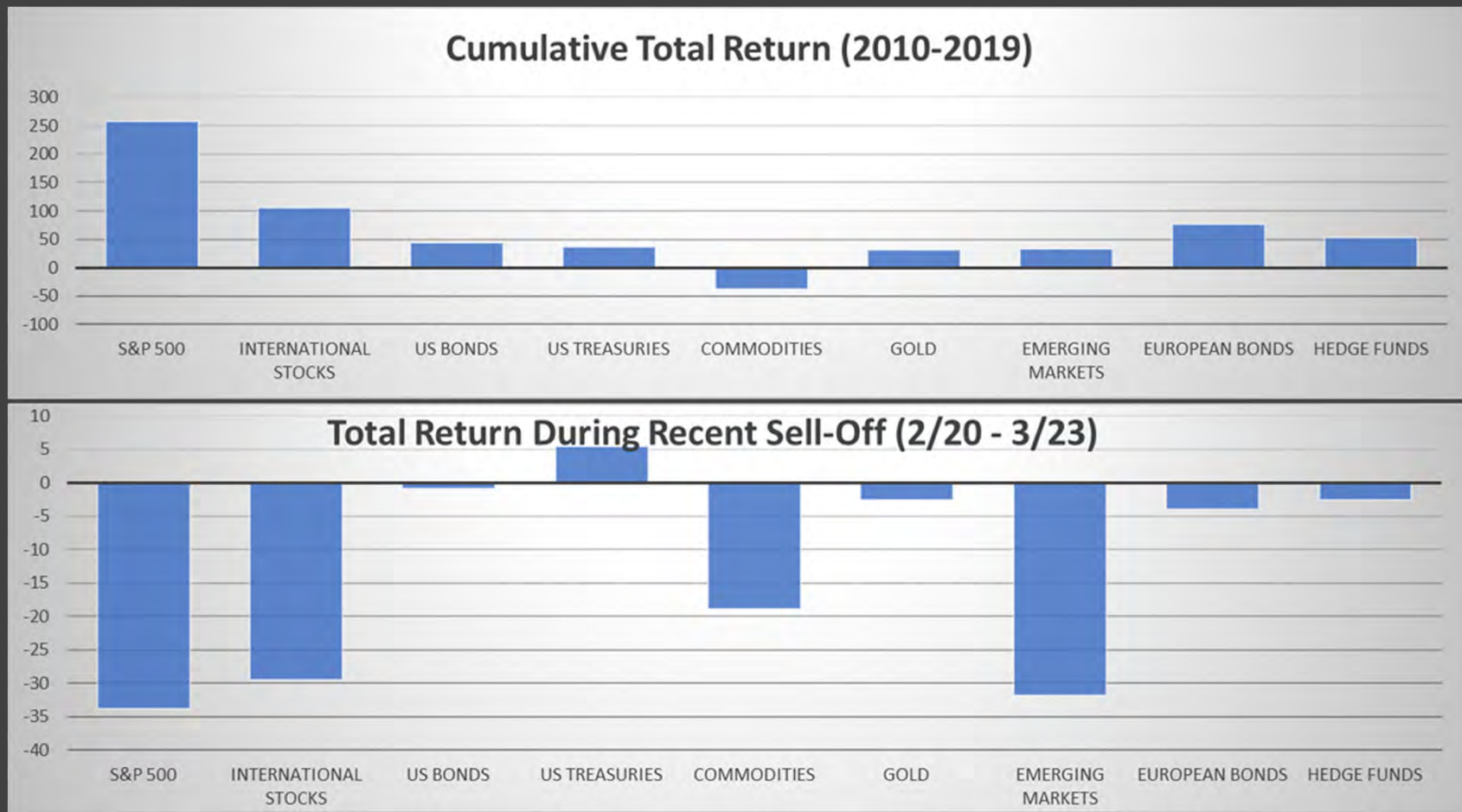
Source: FactSet

# The Markets Have Been Highly Volatile



Source: Factset

# The Benefits of Diversification May Not Be Apparent In Short Periods of Market Stress



Source: Factset

Source: FactSet

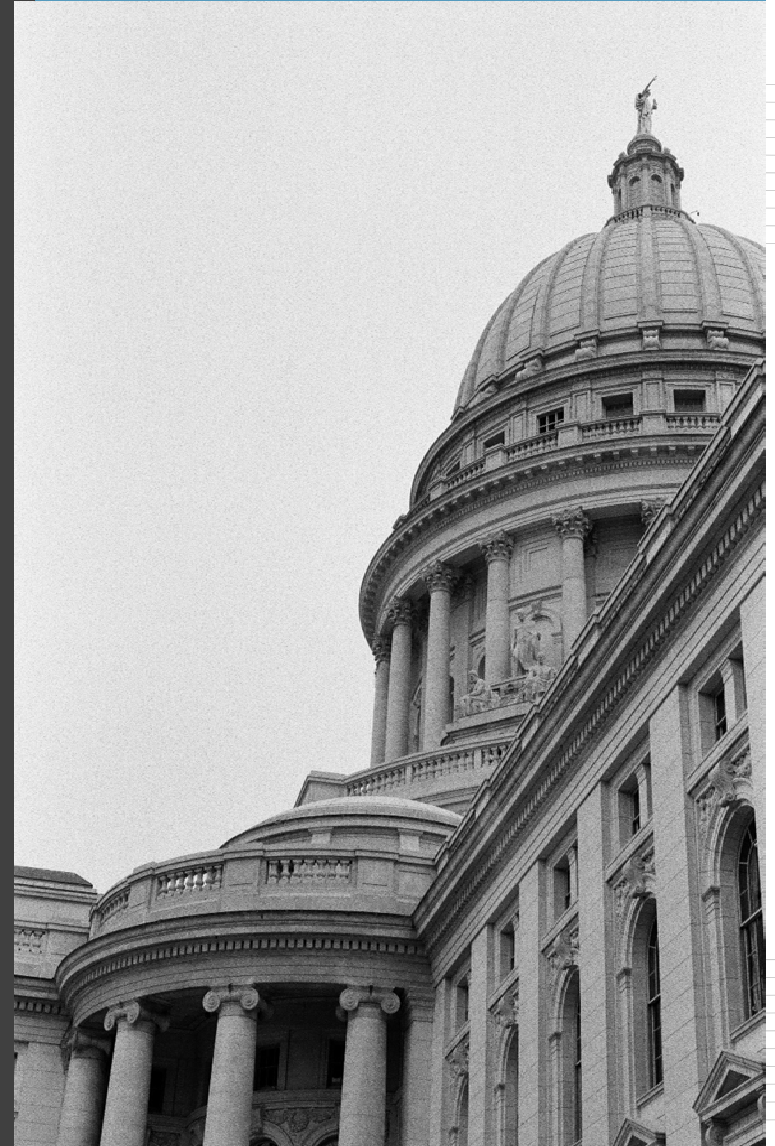
# Global Monetary and Fiscal Stimulus Measures

US Federal Reserve provided liquidity:

- Extending loans to bigger banks
- Buying commercial paper, MBS, Treasuries
- Actions are intended to provide funding for businesses and keep financial markets operating

Government fiscal stimulus intended to fill income gap for consumers and businesses:

- The US government also passed a Stimulus Bill
- China announced RRR cuts for some banks
- BOJ pledged to buy bonds and inject liquidity
- Australia injected cash into its financial system
- Indonesia bought double the amount of bonds it had initially targeted
- EU has also promised to inject capital into its financial systems

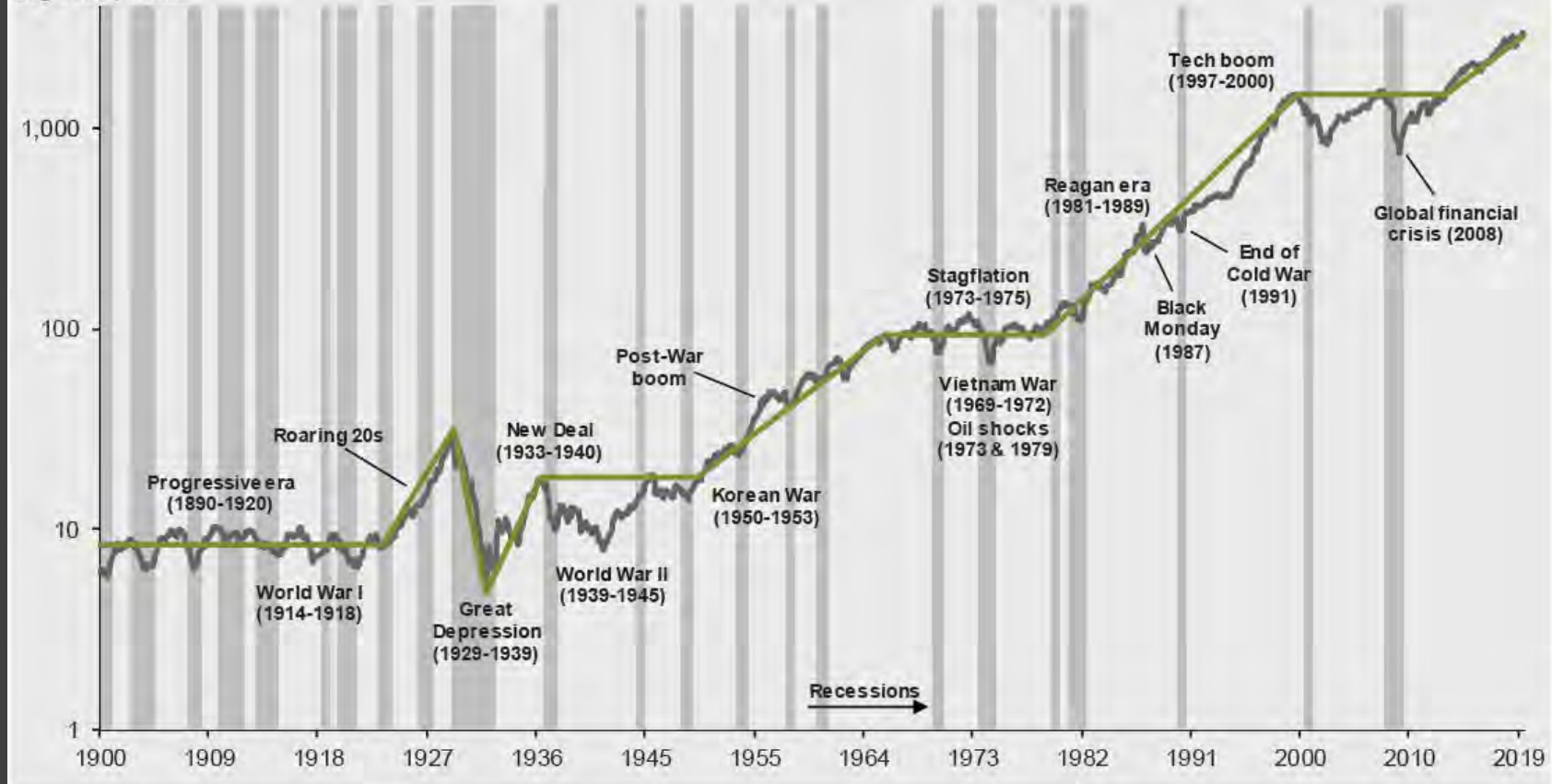




# Historically Stocks Have Been Resilient

## S&P Composite Index

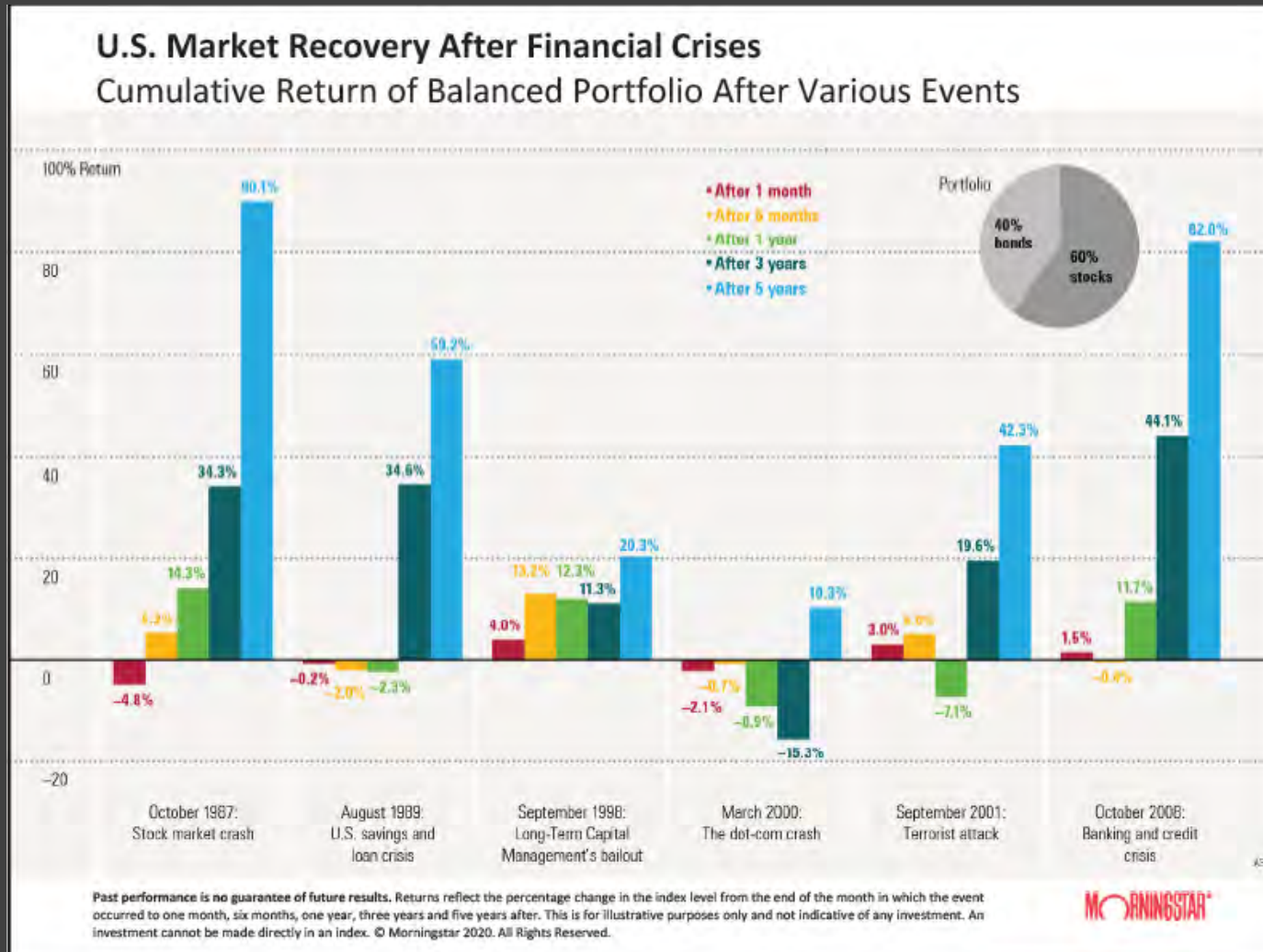
Log scale, annual



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.

Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.

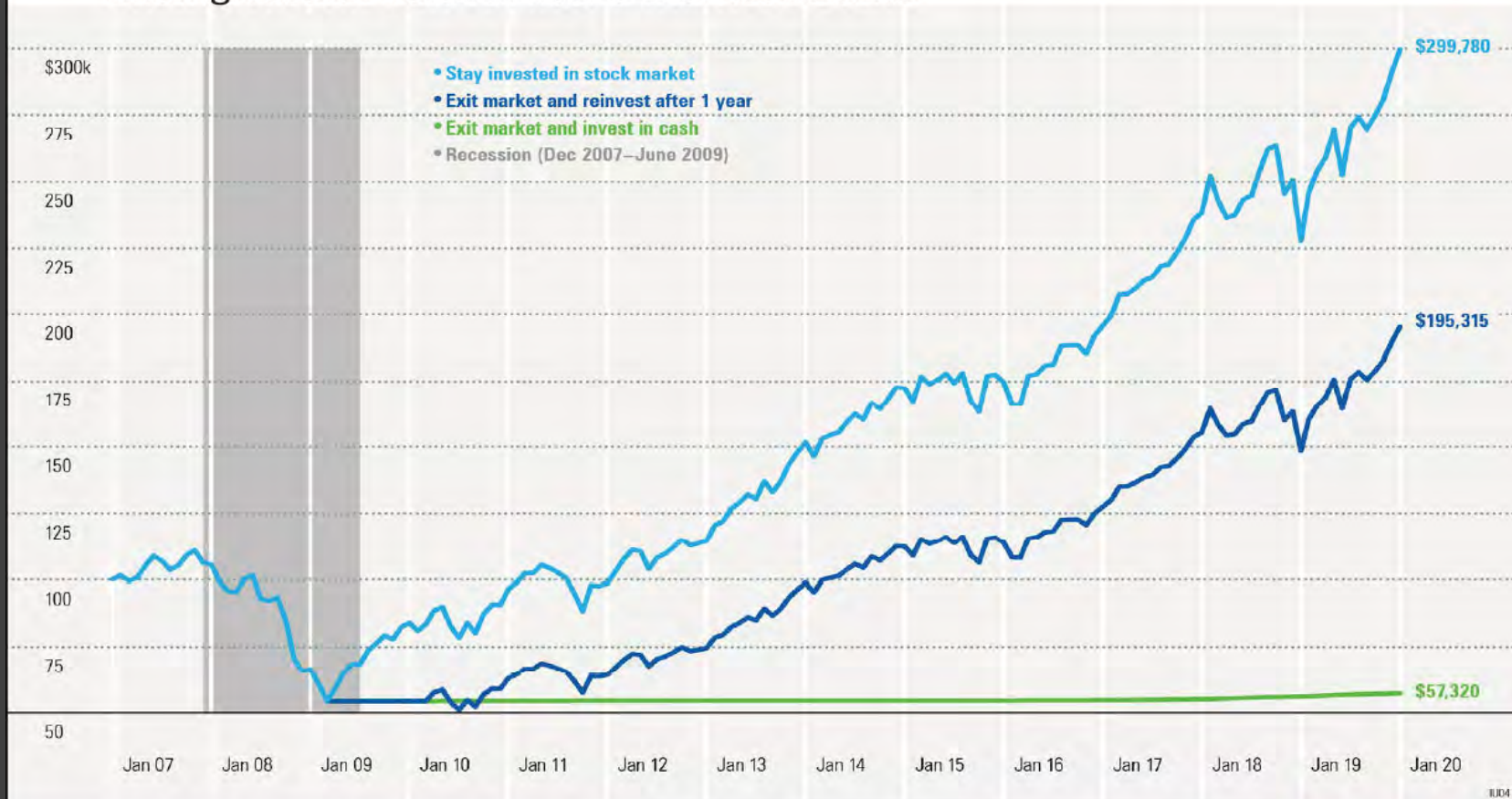
# US Market Recovery After Financial Crises



Source: Morningstar

# History Has Shown It's Impossible to Time Markets

## The Importance of Staying Invested Ending Wealth Values After a Market Decline



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2020. All Rights Reserved.



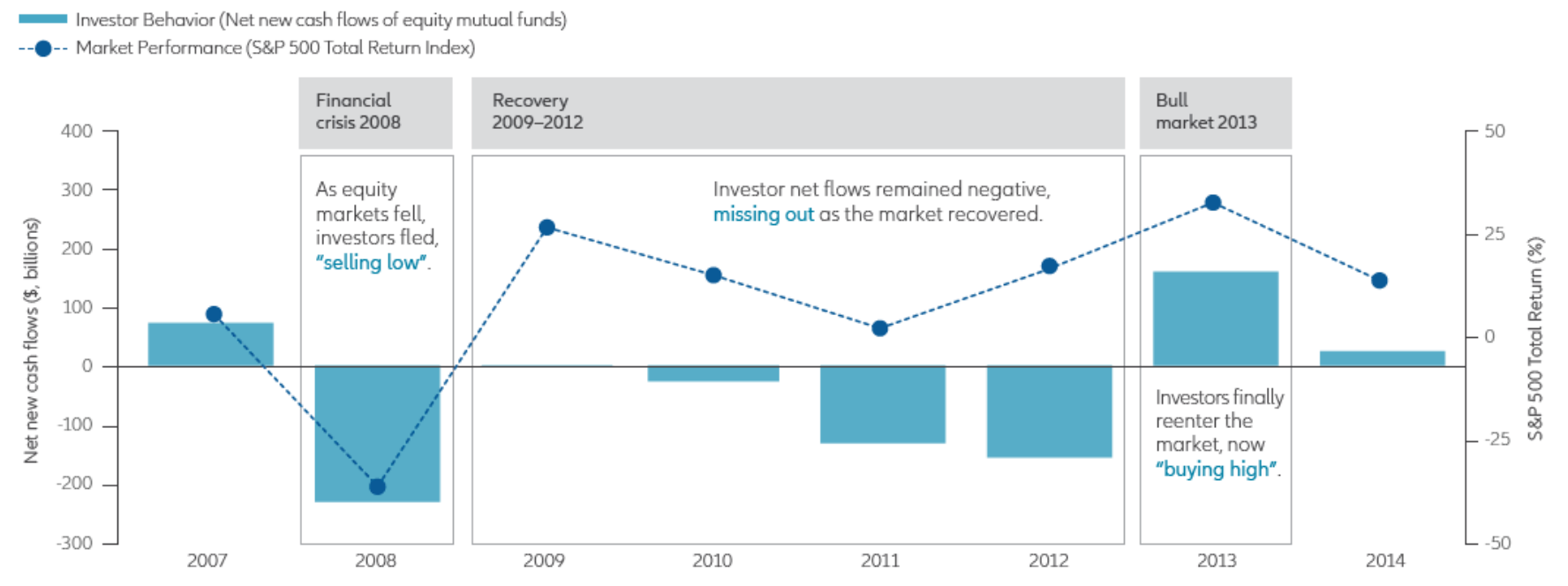
Source: Morningstar

# Timing Can Be Everything

## Keeping risk-averse investors in the game

Historically, risk-averse investors have often “sold low” and “bought high” – locking in losses and missing out on market recovery.

Annual net new cash flows into equity mutual funds versus the annual performance of the S&P 500 Total Return Index



Sources: Morningstar Direct, Allianz Global Investors. Past performance is not a guarantee of future results.

# HBKS Clients Are Prepared for Market Shocks



- Financial Planning helps clients design a solid plan based on long term goals, which should not be influenced by the daily fluctuations of the stock market.
- Client portfolios are designed with a long term, strategic asset allocation
- Includes a risk tolerance assessment to ensure they are in an appropriate mix
- Also includes an assessment of the timing and amount of financial commitments to ensure adequate cash

# HBKS Investment Philosophy



**Markets are Unpredictable** - History has shown it is impossible to predict future prices on a systemic and long-term basis.

**Portfolio Structure Explains Performance** - The asset classes that are chosen for inclusion in a portfolio are responsible for most of the variability of portfolio returns.

**Risk and Return are Related** - The compensation for taking on increased levels of risk is the potential to earn greater returns.

**Diversify Across Many Asset Classes** – The primary way we manage the risk of our clients' portfolios is global diversification.

**Maintain Discipline** - We believe in establishing and adhering to a long term, strategic allocation through full market cycles.

**Utilize Both Passive and Active Management**

# Active Versus Passive Management



- Most studies indicate that the “average” actively managed fund fails to consistently beat their benchmark
- This “average” performance includes small funds with inexperienced managers
- We used Morningstar data to look deeper
  - We removed funds with less than \$100 million in AUM and removed all funds whose primary portfolio manager has been managing the fund less than 5 years
  - We then separated the funds by the Morningstar’s asset class categories
- For each fund we calculated the 3-year annualized returns for each calendar year-end going back twenty years (from 1996 through 2016)
- We calculated the average fund performance within each category
- The results were compared to an ETF that seeks to replicate the primary benchmark within each asset class

# Active Versus Passive Results

The results paint quite a different picture than the studies that simply use “average” mutual fund performance

**Percentage of Time the Average Rolling Three Year Performance of Actively-Managed Funds with Long-Tenured Managers and More Than \$100 Million AUM Outperformed a Passive ETF Benchmark Within Each Asset Class From 1996 Through 2016 During Specific Market Environments**

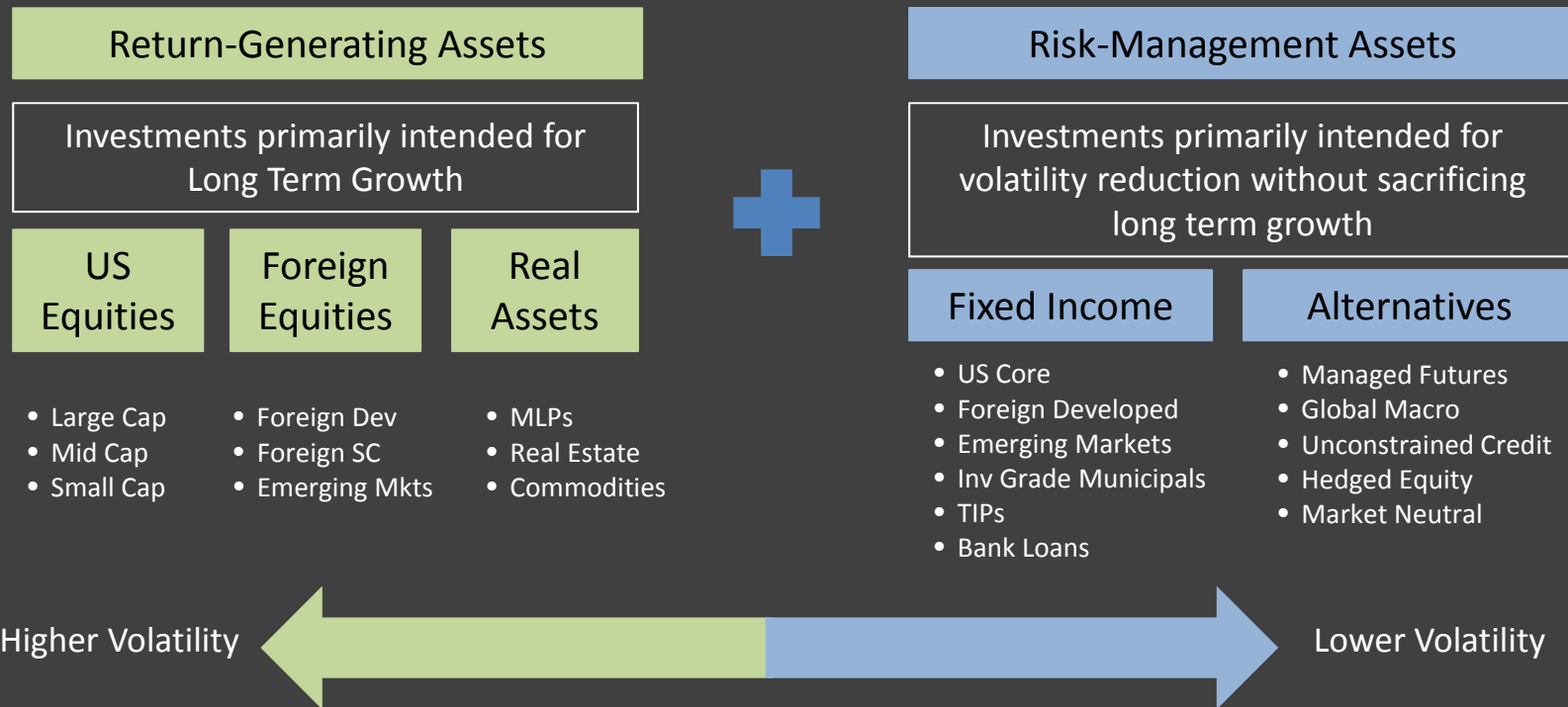
Asset Class		ETF (Ticker)	Total	Up Markets	Down Markets	0 - 10% Returns
Domestic Equity	Large Cap Core	SPDR® S&P 500 ETF (SPY)	60%	43%	100%	75%
	Large Cap Growth	iShares Russell 1000 Growth (IWF)	38%	38%	71%	67%
	Large Cap Value	iShares Russell 1000 Value (IWD)	40%	25%	100%	50%
	Mid Cap Core	SPDR® S&P MidCap 400 (MDY)	45%	41%	67%	40%
	Small Cap Growth	iShares Russell 2000 Growth (IWO)	75%	75%	75%	71%
	Small Cap Value	iShares Russell 2000 Value (IWN)	80%	83%	50%	100%
Foreign Equity	Developed Markets	iShares MSCI EAFE (EFA)	85%	77%	100%	71%
	Emerging Markets	SPDR® S&P Emerging Markets (GMM)	69%	73%	60%	60%
Fixed Income	Core US Fixed Income	iShares Core US Aggregate Bond (AGG)	60%	60%	N/A	61%



# Risk Management

The primary way we manage risk is by having a broadly diversified global allocation across many asset classes

HBKS believes in an approach that allocates to assets intended to provide risk management without sacrificing long term growth



# Use of Alternatives



- Alternatives are generally considered to be any asset class that has a return profile that has a low correlation to stocks or bonds.
- We use these asset classes as a means of increasing diversification and lowering overall volatility of client portfolios.
- In order to more closely align the risk profile of each model with the benchmark, the Alternative allocation will come from a prorated amount of the Equity and Fixed Income allocations.

# What This Means For Our Clients

- Our clients don't need to make drastic changes during periods of market stress.
- HBKS portfolios are structured to provide some level of downside protection during a market correction.
- Rebalance portfolios back to targeted equity exposure, but not until the curve of new cases flattens
- Potential to increase the targeted allocation to equities:
  - Focus on companies with solid, consistent cash flows
  - Keep focused on long-term goals, not trying to guess the next trend



# Resources



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## COVID-19 and Market Volatility

Important updates and insights to help during turbulent markets.  
[Read More >>](#)

Visit [hbkswealth.com](https://hbkswealth.com) for the latest news and market commentary

Follow up with your Financial Advisor if you have specific questions



**Questions**



# Thank You and Stay Well!

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