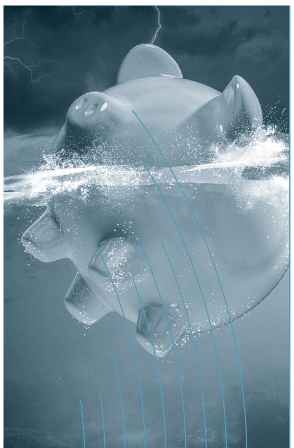
It's Been a Wild Ride



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ENTERING 2020, THE ECONOMY WAS ON SOLID FOOTING. We were adding to a record 10-year economic growth cycle. Corporate profits and the markets continued to rise. But by March conditions had been altered abruptly by the global response to an uncertain virus, and for the first time in our country's history, our economy has been purposefully put into recession.

The recession was instigated by government policy rather than the usual economic imbalances — a housing bubble, rising interest rates, inflation, a consumer credit bubble. For investors it has been new territory, one without a historical roadmap. The global stock markets have tracked the unprecedented events, pricing in each piece of news, rising and falling in response to each positive and negative economic report.

The financial markets, mainly U.S. markets, have largely reflected fears of how difficult our economic situation could get. We experienced a peak-to-trough decline in the S&P 500 index of 34 percent from its February 20 value on 3386.15 to 2237.40 on March 23. The downturn priced in the worst-case scenarios for the economy, including a substantial drop in corporate profits. Although companies were not yet reporting decreased profits, the market anticipated the slide and the speculation made for extreme volatility.

The 2020 recession has been new territory for investors — one without a historical roadmap.

The S&P 500 rallied substantially from its March low as the data emerging on the virus and economy appeared less catastrophic than feared. Central banks and governments around the globe helped by injecting massive amounts of stimulus into their economies. In the U.S., that took the form of lower interest rates, direct payments to citizens and forgivable loan programs — the most substantial U.S. government response to a crisis ever with spending topping $2 trillion.

That financial markets are forward looking goes a long way toward explaining their historic rebound. By June 4 we had experienced the greatest 50-day rally in the history of the S&P 500, despite lows in key economic indicators, including the most important economic statistic, unemployment. The markets' quick upward move likely priced in a V-shaped recovery, and emerging economic data supported the swift rebound, at least for the short term. Again, the markets anticipated change.

The economy and stock markets are sure to encounter more headwinds in light of the uncertainties in many aspects of our economic lives.

To date, the year 2020 has been an emotional rollercoaster for investors. It has been a wild ride. The Dow dropped 3,000 points — 13.2 percent — on March 16, there was a "Hell is coming" quote from famed investor Bill Ackman on March 19, the market bottomed on March 23, then came the historical rally that many professional investors completely missed. And the economy and stock markets are sure to encounter more headwinds in light of uncertainty over unemployment, consumer confidence, global demand, and the effectiveness of government reopenings.

Markets will continue to be unpredictable. They always are. As such it is imperative to avoid knee-jerk reactions and keep a long-term focus. It is the one strategy that has proven reliable. As opposed to trying to time the markets' ups and downs, take this time to review your financial plan, to confirm that you are on course. Reviewing cash and debt levels, taxes, spending, net worth, insurances, investment allocation and estate planning are all good exercises to complete periodically in any environment and can help to reduce stress in times of uncertainty.

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