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The Coronavirus Bear Market… Is it Done Yet?

Panic has set into markets as we entered Bear Market territory with concerns about the spread of the coronavirus and an oil price war weighing on investors. Daily volatility is at record levels with most days posting 3% plus moves (up and down) over the past 15 trading sessions. Yesterday's daily action was the worst since October of 1987. The S&P 500 is down almost 27% from the peak to yesterdays close, already declining more than most bear markets since 1950. Many investor worries are probably recognized in the market. While uncertainty lingers, investors are likely to remain on edge. If there is good news to be had, it would be that the impact of the virus should be temporary (experts suggest a couple of months). Also, lower oil prices should help consumer incomes as they filter through the system. Now the question becomes getting through the next couple of months and minimizing the human and financial impact of dealing with these issues.

The facts as they stand right now are as follows:

- Market volatility has spiked and remained elevated in stock, bond and commodity markets for longer than almost any market panic in post-World War 2 history. It's as though we went directly from bull market to panic overnight. Stocks are down over 25% from the peak less than one month ago. Oil is down over 50% from the early January peak. Ten year yields have declined from 1.91% at the beginning of the year to a low of 0.31% earlier this week before rebounding a bit recently.
- Economists have modeled in a recession without having any evidence yet of one playing out. They anticipate a China like shut down in the US due to the virus, exacerbated by a collapse in oil prices.
- Economists have also modeled in a recovery starting in the third quarter (think sometime between July and September) after the initial shock wears off.
- To get from here to the recovery, the markets need to have confidence that central banks and governments stand ready to keep the financial system liquid and functioning and provide relief to impacted individuals and companies. We are starting to get those assurances, and expect to hear a lot more stimulative support as this situation develops.

So how do bear markets play out? Well, they usually do not arrive as quickly as this one. We saw a great table from Chris Verrone, of Strategas, laying out historic market declines. We updated that to include yesterday's price action (in bold at the top) and present that on the next page. A couple of points to note are:

1. Since 1950, average peak to trough declines with a recession were 25%, and average declines without a recession were 23%. We are beyond that in the current episode.
2. We believe the market is in a secular bull phase. If you think in terms of a secular bull versus a secular bear market, the worst declines (-40% to -50%) only occurred during the secular bear markets of the 1970s and 2000s. The worst pullbacks during a secular bull market was 1987 at -35%, but all of the others were limited to something in the low 20% loss range.
3. Recoveries from bear markets with recessions were very strong, gaining nearly 40% over the year following the bottom. Gains following non-recessionary declines were roughly 28% over the same time frame.

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MARKET DOESN'T DISCRIMINATE BETWEEN RECESSION OR NO RECESSION

Major S&P Declines With a Recession - 1950 to Present

Start Date	End Date	% Decline	Recession?	+250-Days
2/19/2020	**3/12/20**	**-26.96%**	?	?
10/9/2007	3/9/2009	-56.8%	Yes	68.3%
3/24/2000	10/9/2002	-49.1%	Yes	33.8%
7/16/1990	10/11/1990	-19.9%	Yes	28.8%
11/30/1981	8/12/1982	-18.9%	Yes	55.4%
2/13/1980	3/27/1980	-17.1%	Yes	39.6%
7/15/1975	9/16/1975	-14.1%	Yes	27.5%
11/7/1974	12/6/1974	-13.6%	Yes	34.7%
10/12/1973	10/3/1974	-44.1%	Yes	34.7%
8/3/1959	10/25/1960	-13.9%	Yes	30.0%
7/15/1957	10/22/1957	-20.7%	Yes	32.0%
1/5/1953	9/14/1953	-14.8%	Yes	37.7%
	Average	*-25.2%*		*38.4%*

Major S&P Declines Without a Recession - 1950 to Present

Start Date	End Date	% Decline	Recession?	+250-Days
9/20/2018	12/24/2018	-19.8%	No	37.0%
5/20/2015	2/11/2016	-15.2%	No	25.5%
5/2/2011	10/4/2011	-21.6%	No	28.5%
7/20/1998	10/8/1998	-22.5%	No	38.1%
8/25/1987	10/20/1987	-35.9%	No	16.3%
9/21/1976	3/6/1978	-19.4%	No	11.5%
2/9/1966	10/7/1966	-22.2%	No	32.1%
12/12/1961	6/26/1962	-28.0%	No	34.2%
	Average	*-23.1%*		*27.9%*

These tables aren't all that different. S&P declines associated with recession aren't much worse than those where recession is avoided. Absent the down -50% events, most declines are in the -20-25% range. 1987 was a -35% event.

We do not know how long or how deep this bear market will go, but it has already exceeded the average of post 1950. What we can surmise is investors are panicking because of uncertainty regarding the spread of the pandemic and the financial fallout from the accompanying slowdown in the economy and oil price war. We know that panics pass, and suspect we are in the midst of the worst for this one. What we would like to see is strong leadership from Washington and Central Banks. If history is a guide, we are in the vicinity of a bottom for markets, though bottoming is a process and it takes time and retests of lows to play out.

As always, if you need any additional information, please feel free to contact any of us.

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Closing values 3/12/20
S&P 500 – 2,478
Russell 1000 Value – 959
MSCI ACWI ex-US- 225

Refer to the following page for more information on the commentary presented. This is pertinent to this letter and should not be reproduced or duplicated without this disclosure.

Disclosure

S&P 500 Index is a widely recognized index of market activity based on the aggregate performance of a selected portfolio of publicly traded common stocks. The performance data was supplied by Standard & Poor's. It is included to indicate the effect of general market conditions.

Russell 1000 Value Index is a widely recognized index of market activity based on the aggregate performance of common stocks from the Russell 1000 Index, with lower price-to-book ratios and lower forecasted growth values. The performance data was supplied by Frank Russell Trust Company.

MSCI ACWI ex-U.S. (net) Index is a float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries excluding the United States. The ACWI ex-U.S. includes both developed and emerging markets. For investors who benchmark their U.S. and international stocks separately, this index provides a way to monitor international exposure apart from U.S. investments. The Net Index takes into account the impact of foreign tax withholdings on dividend income.