RECAPPING THE WEEK

March 13, 2020

ASHTON THOMAS PRIVATE WEALTH

MARKET BRIEF

We have just witnessed the third week of unprecedented market movements…

The "big one" hit yesterday, as it relates to the financial markets, when we had a magnitude 9.99%[1] drop in the Dow Jones Industrial Average, the biggest daily decline since the 1987 crash[2]. While the equity market decline was significant, the blow to high-quality fixed income instruments was even worse. High yield fund HYG was down 4%[3], to be expected with a 10% decline in equity prices. However, the Barclays aggregate bond fund AGG, which represents high-quality corporate bonds and Treasury's, was also down 4%[4]. Not to be outdone, high-quality intermediate-term municipal bond fund MUB was down almost 5%[5]. This price action has the look of a mass liquidation event, complete with deleveraging and panic. Hopefully, this forced-selling event marks at least a reprieve in what has been an unprecedented month, as the chart below depicts.

This Was The Fastest Bear Market Ever

Dow Jones Industrial Average Quickest Bear Markets After A New All-Time High

Date Of Bear Market	Trading Days To Reach New Bear Market
March 11, 2020	19
July 15, 1896	36
October 24, 1929	37
October 19, 1987	38
February 2, 1917	53
October 11, 1990	61
February 5, 1920	67
December 18, 1899	74
May 28, 1962	114
December 12, 1901	128
March 11, 1898	130
August 22, 1966	134
July 2, 2008	184
November 26, 1973	220
March 14, 1907	299
September 17, 2001	417

Source: LPL Research, FactSet 3/11/20

A bear market is when a stock index or security closes 20% or more below a 52-week high.

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

On February 19, the S&P 500 was sitting at all-time highs, up almost 5% year-to-date[6]. Through Thursday's close, the S&P 500 was down over 26% from the all-time high[7]. We have discussed the importance of focusing on risk management and working with your advisor to ensure your risk allocation is appropriate, particularly your equity exposure. The reasons for this have been pointedly illustrated over the past month.

Looking ahead requires a brief look back. The World Health Organization (WHO) may end up with a black eye when the dust settles. Their seemingly conflicted and delayed response contributed to a less-then-swift response by many world governments. However, once the WHO announced what everybody suspected—i.e., that COVID-19 had become a pandemic—the global response became more coordinated[8]. The US government took a more proactive, vocal stance. The governments of other developed nations and the world's central banks also began taking more pronounced measures to combat the economic fallout.

Thursday could be an intermediate-term bottom in equities, given the broad drops across asset classes. The chart below shows the importance of the so-called "19% correction" vs. a 20% "bear market" drop. This chart illustrates how when the equity markets drop by less than 19%, the "smart" money piles in, believing it may be time to arrest the decline, with the possibility of good times lying ahead. This shows, uncannily, that the subsequent rally after a sub-19%-decline can be quite impressive. However, the flip side is that market declines of at least 20% often beget additional declines in the near term.

Date on which decline in S&P 500 exceeded 19%	Additional % decline to S&P 500 low	Subsequent 12-mo. % chg. In S&P 500	Associated with recession?
October 21, 1957	-0.4 %	31.0	Yes
May 28, 1962	-5.7	26.1	No
August 29, 1966	-1.8	24.6	No
January 27, 1970	-20.9	8.3	Yes
November 26, 1973	-35.5	-28.1	Yes
March 6, 1978	0.0	12.6	No
September 25, 1981	-9.2	9.4	Yes
October 19, 1987	-0.4	23.2	No
October 11, 1990	0.0	29.1	Yes
August 31, 1998	0.0	37.9	No
March 2, 2001	-37.1	-8.3	Yes
July 2, 2008	-46.4	-28.9	Yes
October 3, 2011	0.0	32.0	No
December 24, 2018	0.0	37.0	No
March 11, 2020	**?**	**?**	**?**
Average	**-11.2 %**	**14.7 %**	
Median	**-1.1 %**	**23.9 %**	

Coming into the year, equity valuations were stretched. By February, equity prices seemed to be overextended and earnings growth was flat. That combination is largely why this decline has been so swift and steep. However, looking forward, we should reassess the situation. The market looks very oversold and needs time and price appreciation to work off these conditions. The damage to the economy from COVID-19 is real and the full extent is still very much unknown. The stock buyback programs of the last decade will likely be on hold for some time, as

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companies work through the impacts of COVID-19. The Saudi/Russia oil price war is real and the damage to the oil industry will likely be significant, as well[9].

With this in mind, we should prepare for continued substantial two-way (up/down) volatility for an extended period. We are likely to see some notable rallies, like today's, which will make things feel like they are moving toward "normalization," but the ripple effects of the last month will likely be felt for some time to come. Additionally, the defensive measures that were taken earlier in the cycle are a two-way street. They have helped arrest the severity of the decline, but also serve to temper market recoveries on big rally days, such as today. The markets could rally significantly in an effort to ease the strong selling pressure we have witnessed the last few weeks. At this point, I think it would be premature to conclude that the "all-clear" signal is warranted. Rather, it may be best viewed as an opportunity to dial back risk in accordance with your financial plan and risk tolerance. As always, with the news flowing fast and fluid, we are continually monitoring the situation to keep you apprised.

References:

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