A STROLL DOWN MEMORY LANE

March 27, 2020

MARKET BRIEF

A lot of attention and words have been focused on the unprecedented declines of the last few weeks, so it may be a good time for us to take a look back to March 6, 2009. On that date, the S&P 500 hit a low[1] of 666.79, which ended up marking the low price of the bear market from the Great Financial Crisis. The decade-plus-long bull market that ensued was a great run that will not be forgotten.

To start, on that fateful day of March 6, 2009, the S&P 500 Price Index had a year-to-date return of -26.2%, but finished 2009 up +24.7%[2]. There were other banner years for the S&P 500 Total Return Index; such as the QE3-fueled rally[3] of 2013, where the S&P rallied for a gain of +32.4%[2] on the year. In 2017, when it seemed like the market went up a little bit every day, the S&P ended the year up +21.8%[2]. Finally, and certainly not to be forgotten, was 2019. Coming off a rough fourth quarter at the end of 2018, the S&P rallied to finish 2019 with a gain of +31.5%[2]. Of honorable mention are 2010, 2012, 2014 and 2016, all four years in which the S&P also saw double-digit gains[2].

Calendar Year S&P 500 Total Return (%)

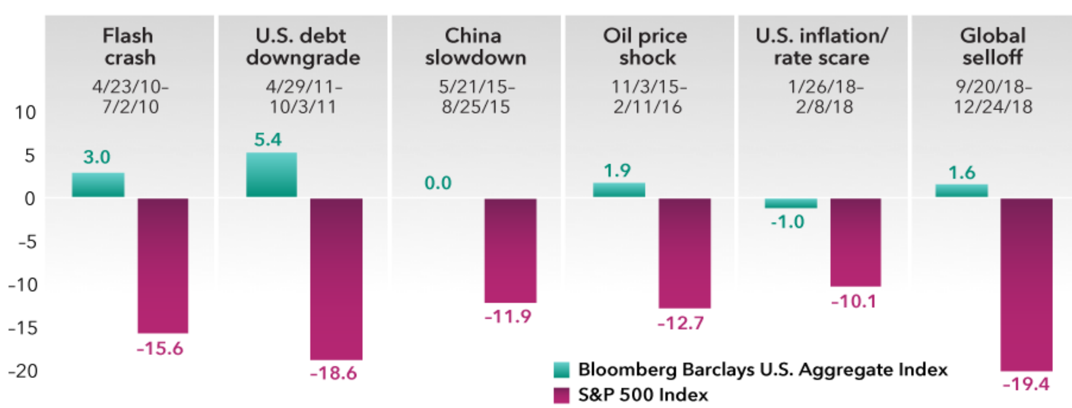
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
-37.00	26.46	15.06	2.11	16.00	32.39	13.69	1.38	11.96	21.83	-4.38	31.49

Source: www.slickcharts.com/sp500/returns

If you had built a $1,000,001 portfolio of 40% S&P 500, 20% MSCI EAFE (International) and 40% Barclay's Aggregate Bond Index (simplistically a 60% Equity/40% Fixed Income portfolio) at market close on March 6, 2009, reinvesting dividends but doing nothing in the way of rebalancing, your portfolio mix as of the close on March 23, 2020 would consist of 61.4% in the S&P 500 sleeve, 15.2% in the MSCI EAFE and 23.4% in the AGG[4].

Through periodic rebalancing, one might have ended up with a bigger pie overall. So, while the equity sleeve declined considerably in the last few weeks, it was from a much higher base when compared to fixed income, as one would expect. The fixed income segment would have been helpful to a regularly rebalanced portfolio, but did not provided as much ballast during the current selloff as it would have in several other historic declines (see chart below).

High-quality bonds have shown resilience when stock markets are unsettled



Sources: Bloomberg Services, Ltd., RIMES, Standard & Poor's. Dates shown for market corrections are based on price declines of 10% or more (without dividends reinvested) in the unmanaged S&P 500 with at least 50% recovery between declines for the earlier five periods shown. The most recent period is still in correction phase as of 31/12/18. The returns are based on total returns.

The previous chart illustrates how high-quality corporate and government fixed income weathered equity downturns over time. However, the decline we just witnessed impacted high-quality corporate and government bonds disproportionately in comparison to prior selloffs. Three fixed income ETFs illustrate this point: AGG +5.3% YTD through 3/6/2020, then -9.6% YTD through the 3/18/2020 low[5]. MUB +3.6% YTD through 3/9/2020, then -13.7% YTD through 3/19/2020 low[6]. LQD +5.5% YTD through 3/6/2020, then -21.8% YTD through 3/19/2020 low[7].

The fixed income market has suffered so much in the wake of the COVID-19 pandemic that the Fed announced specific programs to bolster both municipal bonds[8] and high-quality corporate bonds[9], something we did not see during the Great Financial Crisis of 2008-09.

So, while the last several weeks have been negative for almost all major sectors of the financial markets, it is important not to lose sight of the past. The asset allocation and periodic rebalancing your advisor employs are key components of how a healthy portfolio coming into this downturn has helped mitigate the broader market selloff. While the traditional benefits of high-quality corporate bonds and government bonds have not been as helpful as they have in times past, the dynamics causing this imbalance are likely temporary due to forced liquidation and deleveraging. As that selling pressure subsides, we likely see much of the paper losses in high-quality bonds recuperate, followed by continued receipt of coupon payments which should mitigate the longer-term drawdown. As the chart[10] below shows, when the S&P 500 had a notably negative year in 2008, the high-quality bond market was relatively flat.

DESCRIPTION	TICKER	2008 RETURN
iShares Core US Aggregate Bond ETF	AGG	5.88
iShares iBoxx $ Invmt Grade Corp Bd ETF	LQD	-0.33
iShares National Muni Bond ETF	MUB	-0.96

Sometimes segments of the financial markets do not behave as one would expect. As mentioned earlier, these anomalies, while noteworthy, are generally relatively short in duration. Tactical asset management strategies may help address some of these short-term considerations as a compliment to your portfolio.

In the long run, a dynamic financial plan designed to address your specific situation coupled with an asset allocation program that matches your risk tolerance and includes periodic rebalancing is the pathway to achieving your near- and long-term financial goals. Your advisor and our team are here to guide you through uncertain times like these and help you stay you on track.

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