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Market Struggles

By Richard J. Wylie, MA, CFA
Vice-President, Investment Strategy, Assante Wealth Management

It has been almost 11 years since the equity markets bottomed out on March 9, 2009, at the height of the financial crisis. Investors were recently provided with a reminder of those turbulent days. On February 24, 2020, the Dow Jones Industrial Average (DJIA) dropped 1,031.6 points (3.6%). This was the first time it had fallen more than 1,000 points in over two years. During the same trading session, the broader S&P 500 tumbled 3.4% while, domestically, the S&P/TSX dipped a more modest 1.6%. These markets have all seen heavy follow-up selling, as nervous shareholders have headed for the sidelines. Not surprisingly, the events buffeting the equity market have raised concerns for all investors. Those with a clear recollection of the scale of the 2008/2009 market declines are understandably worried over a possible return to those days. In addition, newer investors likely have little or no experience with this kind of downward market action and may be experiencing significant unease for the first time. Unfortunately, these bouts of weakness are part of the normal evolution of the markets. Taking advantage of professional advice and a well-grounded financial plan can go a long way towards alleviating the fears that naturally creep up during these volatile periods. Having a properly diversified portfolio and an advisor in your corner are the best bet when weathering these financial storms.

North American equities

Source: Bloomberg

By the market close on February 26, the DJIA had accumulated an 8.8% decline from the all-time high posted on February 12. Similarly, the S&P 500 closed trading on February 26 at 3,116.4, down a total of 8.0% from the all-time high set at the close on February 19, just five trading sessions earlier. Even though global equity markets had previously reacted to the uncertainty over the spread of the Covid-19 coronavirus, it returned to the front burner. The disease's appearance in several new locations, accompanied by a rising number of cases, reminded everyone of the challenges in attempting to predict a definite pattern to these events. Worries about disruptions to the transportation of goods and people intensified. For the U.S. market specifically, the leadup to this November's presidential election has also sparked a higher degree of uncertainty. And, if there is anything that the market dislikes, it's uncertainty. However, while at any juncture there are never any guarantees, markets do rise more often than they fall. As can be seen in the above chart, a look at the longer history of the U.S. equity market puts previous significant declines in perspective. The four "bear" markets[1] that have emerged in the U.S. since 1980 are no less material, but the continuous gains that have been seen since each bear market ended have been more than sufficient to recover all of the lost ground and more.

Source: Bloomberg

Like the U.S., the main Canadian equity benchmark has also pulled back from record highs. The S&P/TSX established its all-time high closing level of 17,994.1 on February 20. At the close on February 26, the index stood at 17,041.9, down 5.0%. Naturally, as the spread of the Covid-19 coronavirus is of global concern, the

[1] The general industry consensus is that a "bull" market is a rally that exceeds 20%, which is never interrupted by a 20% drop or "bear" market. Conversely, "bear" markets can be interrupted by brief bursts of 20% gains, often referred to commonly as "dead cat bounces" rather than actual "bull" markets.

domestic equity market has been influenced in the same way as the world's other major markets. However, unique to Canada is the series of ongoing protests that have significantly disrupted rail transportation.

Furthermore, unlike the U.S. where the economy closed out 2019 with fourth quarter gross domestic product growth at 2.1%, the Canadian economy is widely expected to turn in a far weaker result. With significantly less economic momentum than the U.S. heading into 2020, coupled with the breakdown in transportation and fears of the spread of the Covid-19 coronavirus, prospects for the economy have been hit hard. Still, as seen in the graph above, like their U.S. counterpart, Canadian markets have also gained more than they have lost. Interestingly, despite the extraordinarily tight economic ties between the countries, since 1980, the Canadian markets have seen 11 bear markets compared to the four seen in the U.S. Though, like the U.S., the losses do appear less pronounced when looking at the longer time frame.

Sometimes these quick downward moves can gain momentum and the current level of volatility may persist for some time. Human emotion is part of the process whereby the markets determine the prices of the stocks that trade within them. Fear is one of the emotions most often associated with the market. It is only natural to feel unease when markets turn sharply lower, just scant days of hitting new record highs. This fear can make it tempting to get out of equities and seek the refuge of the sidelines. However, trying to time the market is likely to fail and selling after a market decline raises the risk of violate the investor goal of buying low and selling high. Only time will tell if the current equity downturn is the first stage of an actual bear market, or if it proves to be a V shaped sell-off that is reversed in relatively short order.

Conclusions

- The recent increase in market volatility and the uncertainty of the broad move lower are a part of the normal movements of the market.
- Taking a long-term market view is difficult, particularly when most of the recent news is negative. Still, history has shown that equity markets gain over the longer term and provide returns that give the best opportunity to grow wealth.
- Taking advantage of professional advice can help remove some of the emotion from investment decision making. This can help individuals avoid the temptation to time the markets