# MARKET PERSPECTIVES (As of March 31, 2020)

CAROLINAS INVESTMENT CONSULTING

## Capital Markets

The four most dangerous words in investing are claimed to be, “This time is different.” Yet today, “unprecedented” seems more factual than hyperbole. Markets have never experienced a recession by proclamation before.

Markets responded with the most volatile month on record. The VIX volatility index exploded faster and to higher levels than in 2008. From the Feb. 19th high to Mar. 23rd, stocks plunged 34% in a panic-fueled waterfall decline, the fastest to a bear market in history. Even safe-haven asset classes struggled during a two-week liquidity crisis caused by a mass dash for cash. The Fed swiftly cut rates to near zero, injected $500B in new lending facilities and pledged unlimited QE as a bridge loan to stabilize capital markets until Congress’s bazooka-sized $2.2T fiscal stimulus bill could be passed.

Recent harsh economic data and shutdown duration concerns have shifted the consensus view from a V-shaped economic recovery to U-shaped. Yet despite the apocalyptic headlines, the S&P 500 enjoyed its 2nd best 5-day rally ever (+17%) through Mar. 30th. Containment and cure continue to be the focus as the world’s top biopharma scientists collaborate to develop and fast-track therapeutic and vaccine solutions.

Optimism may sound naive, but America’s past suggests it pays to bet on human ingenuity. History also reminds us the best years of stock market returns have followed truly terrible periods. Timing an exact low is impossible, but the S&P 500 bottoms four months prior and rises 24.9% before recessions end, on average. Long-term investors have been rewarded for staying the course, even after the worst of quarters.

## Chart of the Month

**S&P 500 Worst 10 Quarters Since 1950**

| | Date | Performance | +1 Quarter | +2 Quarters |
|---|---|---|---|---|
| 1. | 3Q 1974 | -26.1% | 7.9% | 31.2% |
| 2. | 4Q 1987 | -23.2% | 4.8% | 10.7% |
| 3. | 4Q 2008 | -22.6% | -11.7% | 1.8% |
| 4. | 2Q 1962 | -21.3% | 2.8% | 15.3% |
| **5.** | **1Q 2020** | **-20.0%** | **?** | **?** |
| 6. | 2Q 1970 | -18.9% | 15.8% | 26.7% |
| 7. | 3Q 2002 | -17.6% | 7.9% | 4.0% |
| 8. | 3Q 2001 | -15.0% | 10.3% | 10.2% |
| 9. | 3Q 1990 | -14.5% | 7.9% | 22.6% |
| 10. | 3Q 2011 | -14.3% | 11.2% | 24.5% |

**Equity**

| | MTD | YTD | 1-Yr | 3-Yr | 5-Yr | 10-Yr | 15-Yr |
|---|---|---|---|---|---|---|---|
| Global Stocks | -13.5 | -21.4 | -11.3 | 1.5 | 2.8 | 5.9 | 5.2 |
| U.S. Large Cap | -12.4 | -19.6 | -7.0 | 5.1 | 6.7 | 10.5 | 7.6 |
| U.S. Large Value | -17.1 | -26.7 | -17.2 | -2.2 | 1.9 | 7.7 | 5.4 |
| U.S. Large Growth | -9.8 | -14.1 | 0.9 | 11.3 | 10.4 | 13.0 | 9.7 |
| U.S. Small Cap | -21.7 | -30.6 | -24.0 | -4.6 | -0.2 | 6.9 | 5.7 |
| Int'l Dev Stocks | -13.3 | -22.8 | -14.4 | -1.8 | -0.6 | 2.7 | 3.1 |
| Emerging Markets | -15.4 | -23.6 | -17.7 | -1.6 | -0.4 | 0.7 | 5.4 |

**Fixed Income**

| | MTD | YTD | 1-Yr | 3-Yr | 5-Yr | 10-Yr | 15-Yr |
|---|---|---|---|---|---|---|---|
| U.S. Inv Grade Bonds | -0.6 | 3.15 | 8.9 | 4.8 | 3.4 | 3.9 | 4.4 |
| U.S. Short-Term Bonds | 0.2 | 2.17 | 5.6 | 3.1 | 2.3 | 2.2 | 3.1 |
| International Bonds | -2.5 | -1.53 | 2.0 | 3.0 | 2.4 | 1.5 | 2.6 |

**Other**

| | MTD | YTD | 1-Yr | 3-Yr | 5-Yr | 10-Yr | 15-Yr |
|---|---|---|---|---|---|---|---|
| Commodities | -12.8 | -23.29 | -22.3 | -8.6 | -7.8 | -6.7 | -5.0 |

## Quote of the Month

*“Time is your friend; impulse is your enemy.”*

– Jack Bogle, Vanguard founder

## Insights by John Silvia, *Director of Economics*

### Recessions and Cyclical Signals

Given recent, very negative jobs data, we face a deep recession with further negative reports on real economic growth, employment, retail sales and industrial production.

### Where is the Upside?

We realize that so much depends on slowing the virus head count and, therefore, turning around both consumer and business attitudes. What are the signals we will look at as May, June and July roll around to indicate the upside to the economy? Let’s break this down into both real and financial indicators:

- Consumer sentiment and jobless claims are the benchmarks for the consumer. Watch for a recovery in consumer sentiment and a steady decline in jobless claims starting in May.
- As for business, we will follow new orders for consumer goods and business equipment.
- On the financial side, we will watch for a decline in the yield difference between corporate and U.S. Treasury debt. We should also see a rise in the difference between 10-year and 90-day U.S. Treasury securities.

Of course, these are the indicators we follow each week, and each month we will update them for our clients and friends.



Sources: CIC, Morningstar Direct and Strategas