Coronavirus-related Volatility: Unexpected, but Expected

Markets have seen increased volatility in late February and have been trending lower over the past several days. Since reaching an all-time high on Feb. 19, the S&P 500 Index has decreased by as much as 10.6%. The S&P/TSX reached an all-time high on Feb. 20 and has since decreased by as much as 8.1%. The decrease in U.S. equities has technically reached correction territory – typically defined as a -10% decrease.

The market's reactions at this stage are very short-term in nature. No one can tell if this drawdown will be short-lived or if it is the beginning of a larger cyclical downturn. However, history indicates that markets tend to recover fairly quickly from corrections, and most sound investment strategies are built to deal with periodic volatility. Long-term investors need to maintain perspective and stick to their plans.

As a leading indicator of economic activity, there are several concepts driving the decline in equities, but primarily this latest round of volatility is rooted in fears and expectations of economic impact related to the coronavirus.

The spread of coronavirus around Europe is gathering pace; Italy is notably struggling, and Greece became the latest country to reveal its first case. Investors are increasingly concerned about how long it will take to bring the outbreak under some sort of control, and the impact that the virus will have on global economic growth. To date, the coronavirus is impacting sensitive sectors of the economy – in particular travel, retail, oil production, automotive, and luxury goods. While negative impacts to full supply chains from manufacturing to distribution to consumer activity haven't occurred yet, they are anticipated.

Although unsettling, market declines are not uncommon. Historically, it's important to recognize that financial markets see a significant pullback at some point during most years while still providing positive returns over a longer time period.

- **Trigger:** The overarching theme impacting markets in the immediate term is that investors are concerned about slowing economic growth based on impacts stemming from the spread of the coronavirus.

- **Long-Term Thinking:** Markets have experienced and endured similar events in the past. The coronavirus issue will eventually be resolved and while economic downturns can be difficult, investing in a diversified portfolio and maintaining the discipline to stick with your longer-term plan through these periods of volatility are among the keys to investment success.

- **Logic Over Emotion:** Perspective is key. Rather than act on emotion, it's important to put these events in context. Work with your advisor to assess any potential impact on your portfolio and implement change only if necessary and in line with your investment objectives.

Our Experts Say…

"Cooperative responses by global health authorities suggest that this outbreak could be contained more quickly than prior epidemics."

TSW LLC
International Value Specialist

Market Update | February 27, 2020

It’s the Long Term That Matters

Over the past 10 years, markets have been positive. Perspective is key.

Source: Morningstar Direct. Returns from January 1, 2010 to February 25,2020 in local currency.

How We Protect Against Market Volatility

In addition to strategically diversified portfolio construction in the Counsel and IPC Private Wealth Portfolios, we have a number of strategies in place to help reduce volatility over time:

- Allocations in most portfolios to our Global Trend Strategy and to Alternative investments enhance downside protection
- Global Trend Strategy has begun to increase its allocation to short-term government bonds (16%), up from 11% at January 31, reducing exposure to equities during this period of market volatility
- The Counsel Retirement Portfolios can also de-risk by shifting investment allocations from equities to short-term government bonds and/or cash equivalents when conditions warrant, thereby reducing volatility
- We have recently trimmed our International equity exposure in late February based on perceptions of increased volatility in 2020

DID YOU KNOW?

We monitor risk factors and keep our eyes on influences such as expected economic conditions and key geo-political events in order to protect your capital.

Our Experts Say…

“It’s important to step back and focus on the long term. We’ve constructed portfolios for that very reason, to focus on the long-term and handle market surprises.”

Wayne Gillespie
Director, Senior Portfolio Strategist
IPC Private Wealth

When markets are volatile, we know it can be challenging to keep your emotions at bay. We’re here to be your guide and help you stay focused on your goals. If you have any concerns, please give us a call.