MARKET VOLATILITY CONTINUES AS OIL PRICING ACTIVITY COMPOUNDS THE CORONAVIRUS IMPACT

March 10 Update

Stock markets declined dramatically as the week opened, exacerbated by an erupting price war between Saudi Arabia and Russia over global oil production targets. The combination of this price disruption, and the severe stress the coronavirus epidemic has already exerted on world commerce and healthcare infrastructure, drove U.S. markets downward past average correction territory, close to the bear market threshold of 20% from recent peaks.

Since the U.S. stock market peaked on February 19, the S&P 500 is down 19%. Energy stocks, as measured by the XLE Energy ETF, are down 43%. The coronavirus and the impasse over oil production among the major exporters have also had a particularly harmful effect on world markets as well. Other than gold, about the only place to avoid the unfavorable impact has been high quality taxable and tax-exempt fixed income instruments, with positive returns in the 3% to 6% range. Moreover, at a macro level, Central Banks may be reaching their limits on their ability to provide meaningful monetary stimulus during this downward turn of the economic cycle. We'd like to report that the worst is over, but we expect continued downside and upside volatility in the near-term just as we saw last week.

Given these facts, we are waiting for more stability in the equity market before we rebalance accounts between fixed income and equity long-term targets. As in other market crises, including the Great Recession of 2007-2009, we believe a portfolio rebalancing opportunity will present itself. When that moment comes, we will be ready to sell those fixed income high-performers before we reallocate to stocks. In the interim, we will reach out with continued commentary to our clients, and encourage clients toward further communication, as we have done along the way.

Some points for context as of market open March 10:

- We are transitioning from a tremendous 2019 with the S&P 500 Index up 31%. The stock market is still up over 12% since 12/31/2018.
- A balanced 60% S&P 500 Index/40% iShares Barclays Aggregate Bond Fund portfolio has declined in the 6% to 7% range for the year so far.
- The same 60/40 portfolio is up about 11% on a trailing one-year basis.
- U.S. equity market valuation levels are more attractive, even assuming a decline in earnings this year, especially given the modest relative value offered now in bonds.
- The Federal Reserve is still injecting a high amount of liquidity to ensure the markets function and additional fiscal stimulus is pending.

We at Commerce Trust Company continue to emphasize that investors maintain an appropriate strategic allocation. As with other breaking news events of the past, it is often tempting to get drawn in by social media posts or the hour-by-hour coverage over many financial news networks. We continue to believe that clients who have a thoughtful forward-looking investment plan in place should view these global events in context of their own personal goals. If you have any questions about your portfolio, or have any other concerns, your Commerce Trust Company investment advisor welcomes your phone call.

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