Legacy Trust

Investment Perspectives

Update on Recent Market Disruption

March 9, 2020

The past few weeks have been tumultuous for financial markets as investors reacted to the COVID-19 coronavirus outbreak that began in China in late January and has now spread to several countries including the United States. Through Friday's market close, the S&P 500 has dropped 11.9% since closing at a record high on February 20.

Markets were further disrupted this morning on the news that Russia refused to sign on to OPEC's plan to reduce crude oil output, which led Saudi Arabia to retaliate by boosting output and cutting prices. At the time of this writing, the S&P 500 was down more than 7% today and oil prices have plummeted over 24% in intraday trading. Against this backdrop of heightened risk, we wanted to share some key considerations to bear in mind today and in the coming weeks as events play out.

- We believe that **the odds still favor the U.S. avoiding recession**. Economic data releases from last week showed that hiring remained robust through February, causing the unemployment rate to drop back to 3.5%, and the services sector looked very strong going into the headwinds from the viral outbreak.
- However, **economic activity is sure to slow in March and into Q2**. Capital spending is likely to be impacted by the heightened uncertainty, and consumer spending will be hurt due to lower personal investment balances from the stock market drop despite the benefit of lower gas prices.
- Further, the clash between Saudi Arabia and Russia resulting in **significantly lower energy prices looks sure to have a negative effect on segments of the U.S. economy**. This raises additional downside risk on top of the concerns surrounding the viral outbreak, and we will be monitoring these new developments closely.
- Until the number of new cases slows and the outbreak appears to be contained, we expect market volatility to be heightened for the foreseeable future. We think **the stock market dislocations are creating some interesting investment opportunities for active managers** and are looking to take advantage of those openings in a prudent and careful manner.
- **Fixed income investments have done their job as diversifiers and helped to cushion the fall for investors with strategic bond allocations**, as interest rates have dropped across the board and prices have rallied. The bond market now looks significantly overvalued today while stocks continue to present the best longer-term opportunity for growth and income despite near-term headwinds.
- While we are looking out for tactical opportunities, **we strongly encourage investors to stay the course with their long-term asset allocation plans that will have already accounted for the next few years of anticipated cash flow needs**, avoiding the need to make significant and costly portfolio adjustments during periods of market volatility. In an environment of uncertainty with new developments unfolding by the minute, it is very difficult to time large-scale entries and exits into the market and history shows that such a strategy rarely leads to long-term success.

There will undoubtedly be more to say as matters unfold over the coming weeks and months, and we will continue to share our thoughts with you as things progress. We know that it can be challenging to ride through these periods and we're here to help. Please don't hesitate to reach out to me or the Legacy Trust team with any questions.

Laina Mills, CFA, CFP®
Chief Investment Officer