ROCKLAND TRUST | Investment Management Group

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Update: The Markets - What We're Watching

Over the past three weeks, investors have been asked to try and make sense of the impact of a global health scare on a personal safety level, as well as an economic and corporate profitability level. The equity and fixed income markets have responded with fierce swings up and down as they try to quantify the unknowns. With a sudden Fed rate cut and the expectation of a coordinated fiscal effort to address economic vulnerabilities, the markets ended last week with positive weekly returns for the DJIA, NASDAQ, and S&P 500. However, we started this week with a spike in volatility due to an additional economic and market shock in the energy sector. Today's spike is a result of both human and economic impacts of the coronavirus and the collapse of an OPEC production concession with Russia.

With reports of the coronavirus spreading into several countries, we are starting to see global impacts at home. The oil price war presents a challenge to our country's oil sector profitability and further impacts our credit markets as many debt laden oil companies may have a hard time accessing credit. Conversely, with the possibility of gas prices falling below $2 per gallon, it may represent a bottom-line boon to consumer's pockets.

Although many market observers contend that the market was overvalued and due for a correction anyway, the unpredictability, strength, and suddenness of the historic tumble was unnerving for even the most seasoned investors. If recent volatility is causing you to consider cashing out of your stock holdings, it may be worthwhile to pause and put recent events into perspective, using history as a guide.

A Look Back

Since the turn of the millennium, the market's negative response to health crises has been relatively short-lived. As this table shows, approximately six months after early reports of a major outbreak, the S&P 500 bounced back by an average of 10.47%. After 12 months, it rebounded by an average of 17.17%. Although there are no guarantees the current situation will follow a similar pattern, it may be reassuring to know that over even longer periods of time, stocks typically regain their upward trajectory, helping long-term investors who hold steady to recoup their temporary losses, catch their breath, and go on to pursue their goals.

Epidemic	**Month end***	**6-month performance, S&P 500**	**12-month performance, S&P 500**
SARS	April 2003	14.59%	20.76%
Avian (Bird) flu	June 2006	11.66%	18.36%
Swine flu (H1N1)	April 2009**	18.72%	35.96%
MERS	May 2013	10.74%	17.96%
Ebola	March 2014	5.34%	10.44%
Measles/Rubeola	December 2014	0.20%	(0.73)%
Zika	January 2016	12.03%	17.45%

Source: Dow Jones Market Data, as cited on foxbusiness.com, January 27, 2020. Stocks are represented by the Standard & Poor's 500 price index. Returns reflect the change in price, but not the reinvestment of dividends. The S&P 500 is an unmanaged index that is generally considered to be representative of the U.S. stock market. Returns shown do not reflect taxes, fees, brokerage commissions, or other expenses typically associated with investing. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in any index. Actual results will vary.

*End of month during which early incidents of outbreak were reported.

**H1N1 occurred during the financial crisis, when, as during other periods, many different factors influenced stock market performance.

What Should You Do?

It is important to remember that even as we experience shocks to the economy, we entered these testing times in a very strong position. Our economy was stable with strong employment growth, and a strong consumer. US corporate profitability was on an upswing and inflation remained subdued. This backdrop should hold us in good stead when the headwinds clear and the global markets and economies recover.

The additional layer of uncertainty has fueled another leg down in the markets, but we remain vigilant in assessing all current and ongoing developments and making adjustments if necessary. We take a long-term view of the market and ensure you are set up properly based on your unique situation. During trying times like this, it may help to focus less on daily market swings and keep your sights set on the long-term view.

After considering the points here, if you still have questions about how changing market dynamics are affecting your portfolio, please don't hesitate to contact your Relationship Manager.