

Setting Expectations for the Second Quarter

- After the massive stimulus package, stocks remain volatile.
- Volatility will remain until there is more clarity around the virus itself.
- We expect news headlines around the virus and economy to worsen, but this is widely expected and we must stay focused on the recovery.

After climbing to record highs in February, the S&P 500 ended the first quarter down -19.60%, which was its worst quarter since the financial crisis. There is a silver lining though—it could have been much worse. The index rallied 17.6% in just three days on news and hopes for both monetary and fiscal stimulus. This was the strongest three-day rally since 1933. Unfortunately, the rally was led by defensive sectors like utilities, real estate, and health care. These are not the sectors that typically lead in a bull market.

While we welcome the huge stimulus package and the Fed's responses to the crisis, there is still a lot of uncertainty remaining. Investors discounted risk assets like stocks and high yield bonds for much of this uncertainty already, but we still won't have a good gauge on what the magnitude of the economic impact will be until we get a handle on the duration of the social distancing policies. To get more clarity on that, we must see the spread of COVID-19 slow.

We expect this extreme volatility to remain until we get a clearer picture on this health data. To put the volatility in perspective, this was the most volatile month ever based on average daily moves. According to Bespoke Investment Group, the S&P 500's average daily percentage change in March was 4.8%. That is the highest for any month on record. As a matter of fact, March 19 was the only day in March where the daily gain/loss was less than 1%.

With volatility here to stay, setting expectations for ourselves is very important. We are just starting to get a glimpse of the economic data that will be coming. Initial jobless claims skyrocketed to 3.3 million for the week ended March 21, which was five times higher than the previous record. In addition, the manufacturing sector saw new orders fall to its lowest level since 2009. The data will start to become clearer this quarter. No doubt it will be horrible, as markets have already priced in a lot of bad news. The question will be, how bad will it be?

We do expect that the second quarter will be the low point for the economy, and we will start to see a recovery in the second half of the year. President Trump is also setting expectations now as he is warning of a bad few weeks on the health front. This surge of COVID-19 cases is also widely expected, but again news reports will be bad.

While we go through April, we must remind ourselves much of what we are witnessing is largely priced into markets. It is expected. While the news will undoubtedly and rightfully focus on this news, we must look beyond the current headlines and to the future. China is recovering already, and low interest rates and stimulus should jump-start the economy when social distancing ends. We should not underestimate the power of these two forces, as we saw the impact these had on markets in 2009. The stimulus package this time around is more than double that of 2008. Your financial professional can help you navigate through these challenging times and stay focused on your long-term financial goals.

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Glossary

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The **Dow Jones Industrial Average** is a price-weighted average of 30 U.S. blue-chip stocks traded on the New York Stock Exchange and NASDAQ. The index covers all industries except transportation, real estate and utilities.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index includes over 2,500 companies, spanning all 11 sector groups.