Market Recap

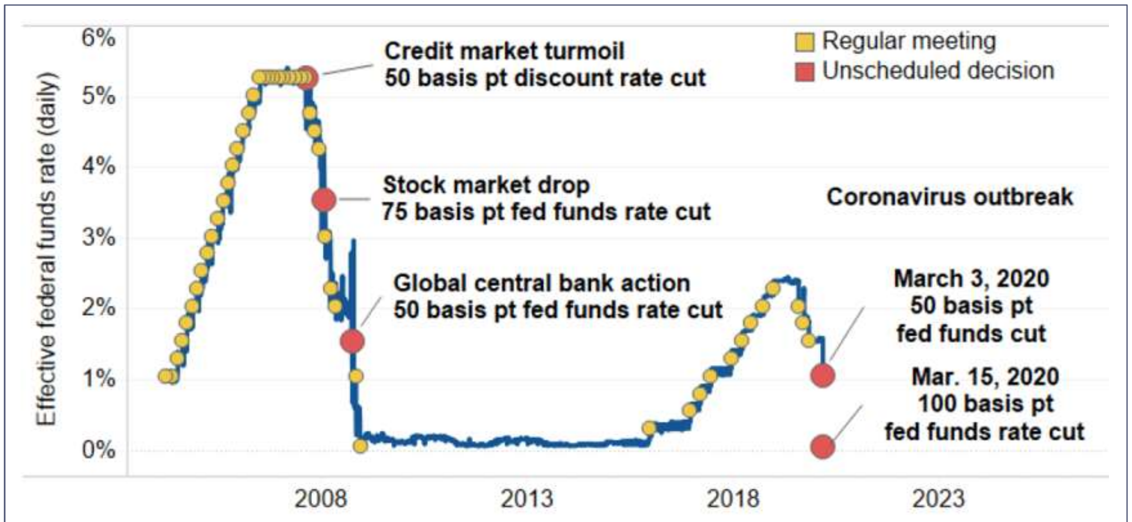
Shelter From the Storm

Major S&P 500 Drawdowns

Peak Date	Trough Date	Peak	Trough	Drawdown	Type	Monthly Avg Rtn
9/16/1929	6/1/1932	31.86	4.4	-86.2%	Secular Bear	-5.8%
9/7/1932	2/27/1933	9.31	5.53	-40.6%	Secular Bear	-8.6%
7/18/1933	3/14/1935	12.2	8.06	-33.9%	Secular Bear	-2.0%
3/10/1937	3/31/1938	18.67	8.5	-54.5%	Secular Bear	-5.9%
10/25/1939	4/28/1942	13.21	7.47	-43.5%	Secular Bear	-1.8%
5/29/1946	2/12/1948	19.25	13.88	-27.9%	Secular Bull	-1.6%
6/15/1948	6/13/1949	17.06	13.55	-20.6%	Secular Bull	-1.9%
8/2/1956	10/22/1957	49.74	38.98	-21.6%	Secular Bull	-1.6%
12/12/1961	6/26/1962	72.64	52.32	-28.0%	Secular Bull	-4.9%
2/9/1966	10/7/1966	94.06	73.2	-22.2%	Secular Bull	-3.1%
11/29/1968	5/26/1970	108.37	69.29	-36.1%	Secular Bear	-2.4%
1/11/1973	10/3/1974	120.24	62.28	-48.2%	Secular Bear	-3.1%
11/28/1980	8/12/1982	140.52	102.42	-27.1%	Secular Bull	-1.5%
8/25/1987	12/4/1987	336.77	223.92	-33.5%	Secular Bull	-11.4%
7/16/1990	10/11/1990	368.95	295.46	-19.9%	Secular Bull	-7.4%
3/24/2000	10/9/2002	1527.46	776.76	-49.1%	Secular Bear	-2.2%
10/9/2007	3/9/2009	1565.15	676.53	-56.8%	Secular Bear	-4.8%
7/7/2011	10/3/2011	1353.22	1099.23	-18.8%	Secular Bull	-6.8%
5/21/2015	2/11/2016	2130.82	1829.08	-14.2%	Secular Bull	-1.7%
9/20/2018	12/24/2018	2930.75	2351.1	-19.8%	Secular Bull	-6.7%

Source: Morgan Stanley

Emergency Rate Cut Is Only Part of the Solution



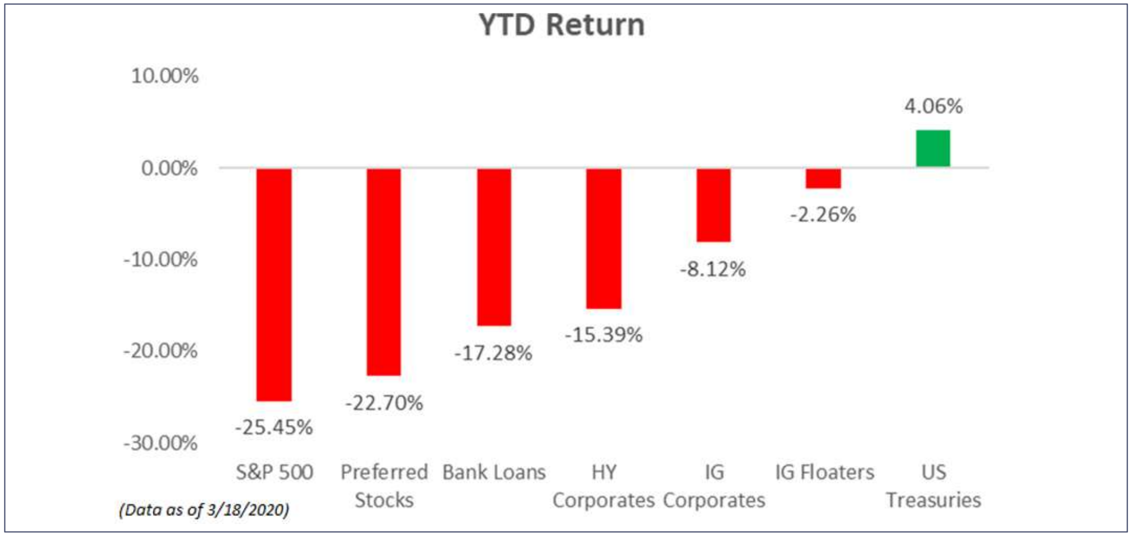
Source: CNBC, Federal Reserve

As the COVID-19 pandemic continues to disrupt economic activity around the world, the S&P 500 has fallen nearly 30% from its peak level (3,386). Although a recession hasn't been declared, at this point it's a virtual certainty. The market selloff has been painful, and the current environment is best characterized as an event-driven shock to the economy (rather than resulting from structural issues or financial excesses). In most cases, the recovery from such external shocks tends to be relatively swift. Yet it's understandable that investors take little comfort at the moment, as such a widespread pandemic is unprecedented in modern market history. The efficacy of social distancing efforts and governments' ability to support businesses and consumers in the meantime will be crucial to how this chapter plays out.

On Sunday the Federal Reserve unleashed a combination of emergency measures to help support the economy amidst the COVID-19 pandemic. The Fed Funds Rate was reduced to a range of 0% to 0.25% from 1.00% to 1.25%. The Federal Reserve also announced a Quantitative Easing program to buy $700 billion of government securities. As the coronavirus outbreak takes an increasing toll on supply chains and consumer demand, the government continues to work through options for additional stimulus to help weather the storm in an environment where many are likely to become cash-flow starved.

Market Recap

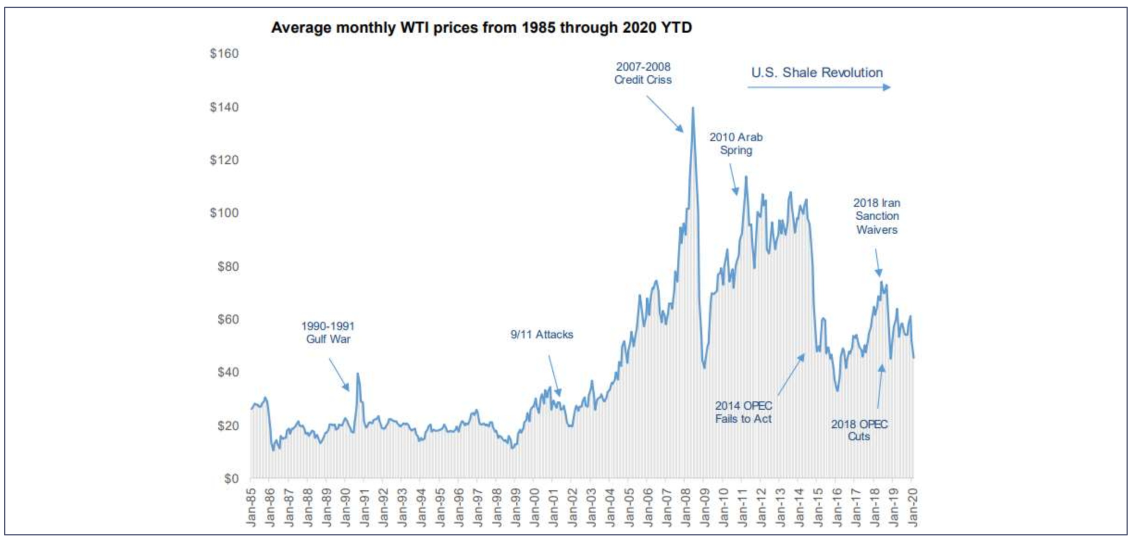
Risks Vary Within the Fixed Income Universe



Source: Bloomberg

Although bonds are often considered the "safe" segment of client portfolios, not all bonds are created equal. Depending on their credit quality and time to maturity, some bonds are vulnerable to severe price declines. As investors have become increasingly concerned about a recession, their risk tolerance has substantially decreased. Consequently, bonds with more default risk – such as high yield corporate bonds - have declined in value, while safer bonds - like Treasuries - have generated positive returns. In recent years, many investors have turned to high yield bonds and preferred stocks to generate additional yield in a low-rate world. However, investors are now more worried about the return of their principal than the return on their principal. *Note: "IG" in the chart refers to Investment Grade.*

A Reckoning in the Oil Market



Source: Stifel

Oil prices plummeted below $25, their lowest levels since the Gulf War, as production-related discussions between Saudi Arabia and Russia broke down last week. As a result, Saudi Aramco is increasing its daily oil production by 1 million barrels (to 13 million total) at a time when crude markets are already over-supplied. While both countries will be damaged by the conflict, the repercussions will be even larger for higher-cost production areas (including most of the U.S. shale companies). Another cruel irony of the current situation is that coronavirus-induced social distancing has prevented consumers from taking advantage of lower gasoline prices.

Market Recap

The Problem With Market Timing

If one missed the top 28 trading days since 1997, the cumulative S&P 500 return would almost be flat.

It's important to have fortitude and stay invested, especially at times of market volatility!

Source: Stifel

100-Year Storm?

Source: Sports Illustrated

Over the past century, the S&P 500 has returned 9-10% per year, on average. That average includes many painful bear markets, multiple wars, contentious political climates, and more than a dozen recessions. Amidst the current turbulent market environment, it's a good reminder of the importance of staying invested. History suggests that although it's not always easy to stomach, staying the course has paid off for long-term investors. There may be periods of widespread fear and/or weeks to months when stocks are severely punished. Although nobody can (accurately) predict when a bear market will bottom (it's never obvious in real-time), keeping skin in the game is the only way to capture the "upside" to volatility.

Countless professional sports leagues have put their seasons on hold to help stem the spread of COVID-19. Indeed, the rash of announcements last weekend has proven to be one of the more eye-opening moments for the American public about the severity of the crisis. While the current NHL season has officially been put on "pause", in the 125-year history of the Stanley Cup there is only one occasion when a champion was not named. In 1919 the Montreal Canadiens and the Seattle Metropolitans canceled the series after five games due to the Spanish Flu epidemic... As the saying goes, "History doesn't repeat itself but it often rhymes."

Contact: If you have any questions or comments, please do not hesitate to contact us at 703.992.6164. For more information about Harbour Capital Advisors, please visit our website at www.harbourcapitaladvisors.com.

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