Cliff Notes
Weekly Capital Market Update

consilium WEALTH ADVISORY

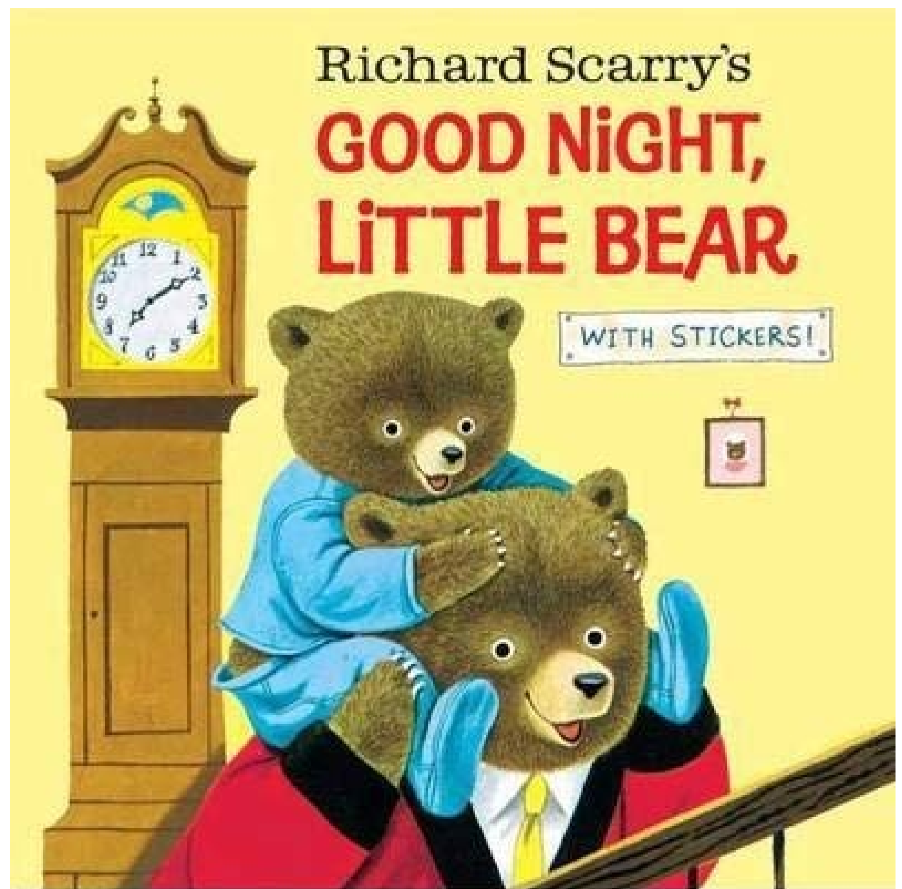
Cliff Notes – Good Night Little Bear

Back in the dark ages before TikTok, one of my generation's favorite books as youngsters was the warm and reassuring Richard Scarry's "Good Night Little Bear". Little Bear always stalled, but his Dad patiently got him ready for a good night's sleep. What peaceful reading it was!

Investors have had a few sleepless nights this year too, but thanks to the Fed, the Govt, and medical and civilian action, investor see a brighter dawn, and have put the bear to sleep for now.

The bear market of 2020 officially ended last week as the S&P500 recovered over 50% from the March 23rd low.

But plenty of worries abound, so we focus on investor fortitude this week.



Source: Little Golden Book

Read our full CliffNotes for market insights, charts, and views.

Weekly Index Returns & Commentary (ending 08.24.2020)

WEEK ENDING AUGUST 21, 2020 (CUMULATIVE TOTAL RETURNS)

Equities[1]	Close	Week		YTD		1-Year	
S&P 500	3,397	▲	0.77%	▲	6.5%	▲	18.4%
DJIA	27,930	▲	0.09%	▼	-0.6%	▲	9.2%
NASDAQ	11,312	▲	2.69%	▲	26.9%	▲	42.4%
Foreign Stocks		▼	-0.99%	▼	-5.8%	▲	5.3%
Emerging Markets		▼	-0.10%	▼	-0.2%	▲	14.1%

Top Three S&P 500 Equity Sectors[1]	YTD	
Information Technology	▲	29.7%
Consumer Discretionary	▲	23.9%
Communication Services	▲	11.2%

Bottom Three S&P 500 Equity Sectors[1]	YTD	
Energy	▼	-38.6%
Financials	▼	-19.8%
Utilities	▼	-6.5%

Bonds[2]	Week		YTD		1-Year		Yield
10-Yr. Treasury[3]	▲	0.56%	▲	10.9%	▲	8.7%	0.64%
US Bonds	▲	0.27%	▲	7.1%	▲	7.2%	1.13%
Global Bonds	▲	0.22%	▲	5.8%	▲	5.5%	0.87%
Munis[4]	▼	-0.31%	▲	3.7%	▲	3.6%	1.25%

Market Indicators[5]		As of
Fed Funds Target	0.25%	08/21/20
Inflation (Core CPI)	1.6%	07/31/20
Unemployment	10.2%	07/31/20
GDP	-32.9%	06/30/20

Weekly Major Asset Class Commentary

Global Equities

The S&P 500 hit a record high last Tuesday, recovering 52% since its March 23rd low and officially ending the recent bear market. The US index ended up 0.77% for the week, losing some ground after minutes from the Federal Reserve (Fed) expressed uncertainty around the economic recovery. European equities also slipped late last week, as economic data disappointed and Brexit talks between the UK and EU stalled.

Commodities

Oil prices were range-bound last week as concerns around the global economic recovery continued to weigh heavily on demand. Despite support from promised OPEC+ cuts and a weak US dollar, oil prices remained capped on the upside by weak economic data and mixed progress in reopening the economy. WTI and Brent crude oil finished the week at $42.34 and $44.35, respectively.

Bonds

The Fed's recent bearish outlook on US economic growth renewed investor worries and amplified concerns over stalled US fiscal stimulus negotiations in Congress. Given this backdrop, global yields trended lower last week, with US 10-Year Treasuries falling 7 basis points (bps) to 0.64%. COVID-19 case growth again threatened the European recovery, as evident in August's soft Eurozone PMI

FX

The US dollar index retested its 27-month low earlier this past week before recovering fully to end at 93.25, a level largely unchanged from the week prior. The uptick in weekly initial jobless claims to above 1 million filings was a drag on the greenback, but was offset by tailwinds from the Fed's tone of sustained accommodative policy measures for the foreseeable future.

(Source: GS Weekly).

Investor Fortitude

Long-term investors understand that financial markets can behave unpredictably over the course of days, weeks and months. How an investor reacts to this short-term uncertainty can play a significant role in whether they achieve their financial objectives. This is why it's important for investors to have both perspective and a trusted advisor in their corner since, in volatile times, the only thing we can control is our own behavior.

Fortunately, experience can play a big role in helping investors to stay disciplined and composed. Living through a turbulent period is worth more than reams of investment data and statistics. The feeling when the stock market appears to be in free fall and the financial media is in a bear market frenzy is a sensation that can only truly be experienced, not taught. The feeling in our gut that this time might be different, despite all of the academic and intellectual knowledge in our heads, is impossible to ignore.

Thus, despite the rapid recovery in the stock market, its important for investors to focus on the right lessons in order to prepare for the next inevitable market bump. Even if history records the first half of 2020 as a blip for markets, it was a test of investor fortitude nonetheless.

What should investors take away from the last several months?

First, it's not unusual for the stock market to fall several percent points, even in a single day. Over the course of 2020, a theoretical investor that checked their statement regularly would have experienced ten distinct 5% pullbacks in the stock market as it fell into bear market territory. While this is the most since 2011 when the U.S. dollar was downgraded and the market plummeted, these types of declines occur often.

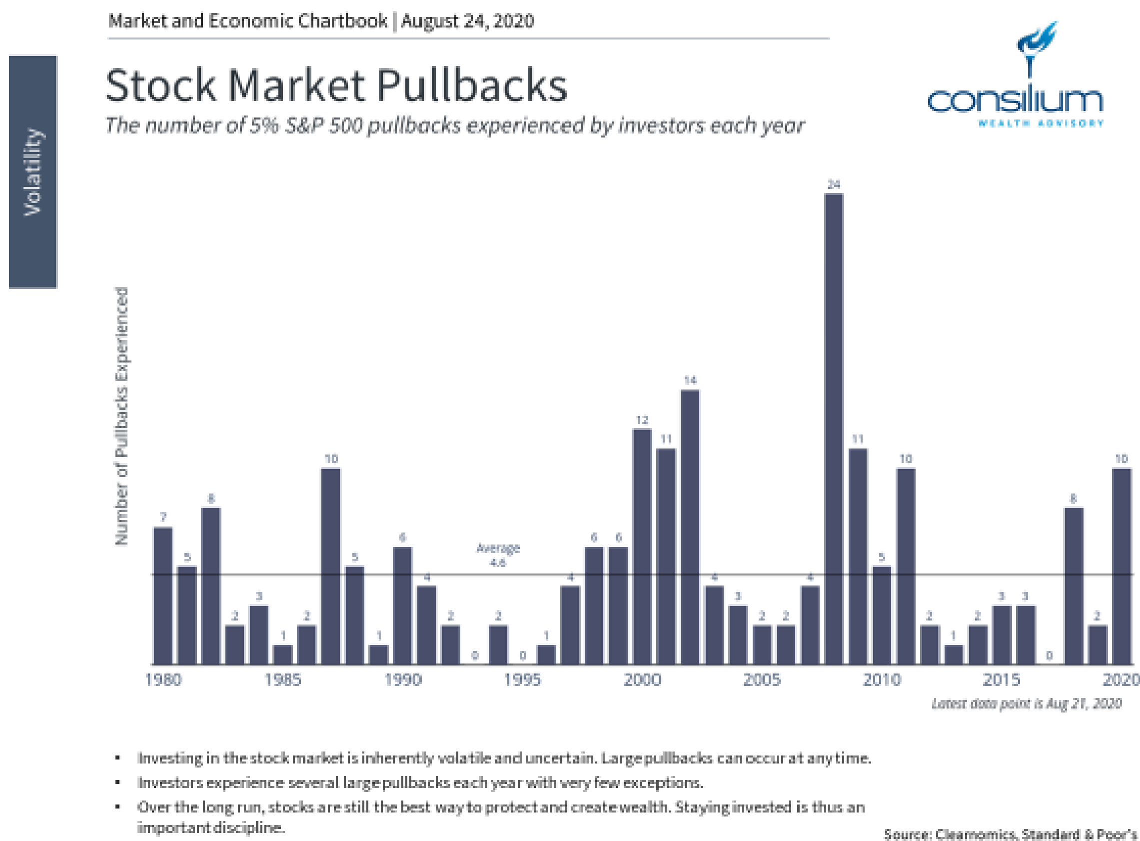
Second, despite large pullbacks in the market every single year, the U.S. stock market more often ends on a positive note than a negative one. Specifically, the last decade has seen intra-year stock market declines ranging from -3% to -34% (with dividends) due to a range of issues including the federal budget, Eurozone crisis, trade wars, geopolitical risk, a pandemic, and more.

Still, the stock market finished in negative territory only one of those years. While this provides no guarantees for the future, market recoveries tend to occur if underlying fundamentals are still intact or can recover quickly. Today, the fact that many parts of the economy can rebound quickly after the initial COVID-19 crisis and economic shutdown has spurred a stock market recovery.

Third, over-reacting to negative headlines or recent market performance often backfires as market sentiment shifts. These swings can happen quickly and unexpectedly, as was the case earlier this year. Attempting to time the market is not only difficult but might be impossible to do consistently. Over the past 25 years, exiting the market after every large daily pullback has resulted in significantly poorer performance whether one stays in cash for one week or one year. Thus, it's often better to simply hold onto a properly positioned portfolio.

As the saying goes, never let a crisis go to waste. Now that the dust has settled for a bit, it's important for investors to reflect on the experience of the last several months and consider how they might react the next time volatility strikes. The circumstances will undoubtedly be different but having the right perspective and discipline will stay the same. Below are three charts that highlight important lessons for long-term investors.

1. The number of short-term pullbacks in 2020 is the highest in almost a decade



This chart shows the number of distinct 5% market pullbacks a theoretical investor would experience in any given year. Through the first 8 months of 2020, investors have experienced 10 of these declines. While this is the highest level since 2011, it is not unusual for many of these to occur in any given year.

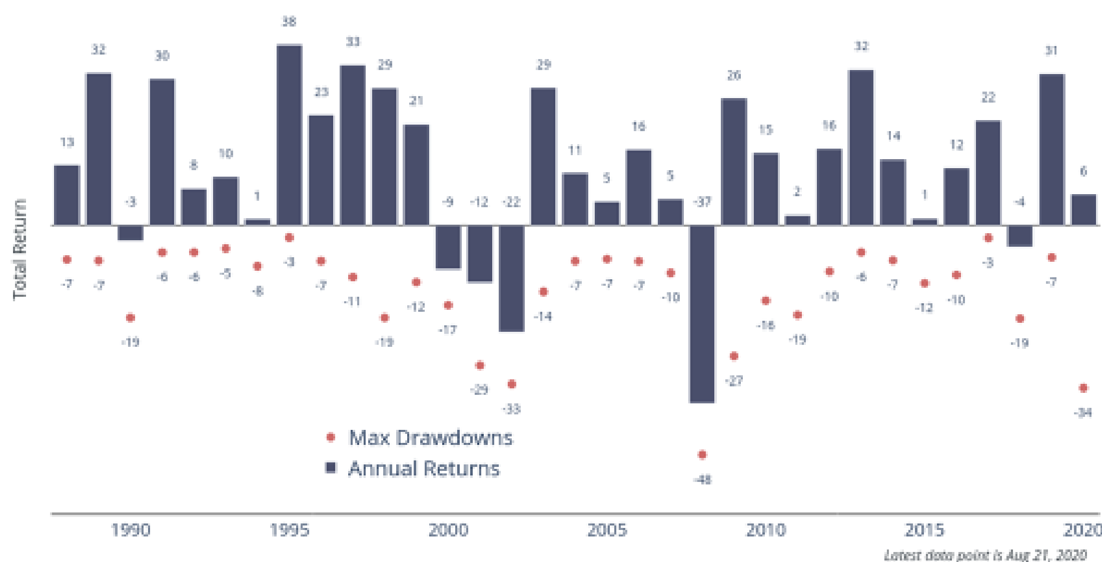
2. The stock market has recovered despite falling into bear market territory

Market and Economic Chartbook | August 24, 2020

Volatility

Total Returns and Pullbacks

S&P 500 Index total returns. Max drawdown represents the biggest intra-year decline



- This chart shows total returns of the stock market (bars) and the largest intra-year decline (dots) each year.
- The average year sees a significant intra-year drop. However, most years still end in positive territory, especially with dividends.
- Volatility in prices is a normal part of investing. It is important to not forget that investments also generate income.

Source: Clearnomics, Standard & Poor's

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Although the stock market fell into bear market territory this year, it has since rebounded and is now near record highs. This is a common pattern across history - the stock market may pull back in any given year, but often ends on a positive note. While there are no guarantees, those investors who can focus on years instead of weeks are more likely to benefit from these long-run gains.

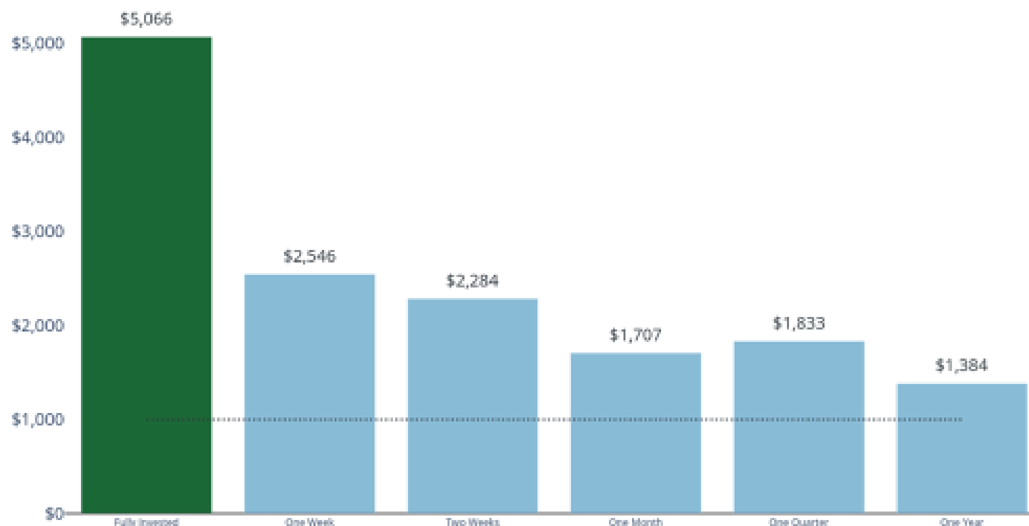
3. History teaches us to not over-react to short-term volatility

Market and Economic Chartbook | August 24, 2020

Staying Invested

Staying Invested: Timing the Market

Over the past 25 years, the effect of exiting the market the day after a -2% market move or worse, and staying out for each period of time shown. Based on an initial $1,000 investment using S&P 500 returns before transaction costs



Latest data point is Aug 21, 2020

- Staying invested when markets become volatile is important to achieving long-term gains.
- This chart shows the effect of exiting the market for different durations of time immediately after -2% market days.
- Deciding when to re-enter is difficult. It is clear that this often results in worse performance than simply staying invested.

Source: Clearnomics, Standard & Poor's

Over-reacting to short-term market performance can often lead investors astray. Over the past 25 years, running to the exits after a large daily decline has been detrimental to portfolios. This is true even if investors only flee to cash or other safer assets for a short period of time. This is because the stock market can often recover unexpectedly and has tended to rise over the course of years and decades. Missing out on these long-term gains is often more detrimental than the initial stock market pullback.

The bottom line? With the markets now calm, it's more important than ever for investors to reflect on the last several months. Learnings important lessons from this period can serve investors throughout their financial journey.

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