Outlooks and insights

GLC Insights – The coronavirus: understanding the market reaction and five ways to keep your investment strategy healthy

February 27, 2020

By Brent Joyce, Chief Investment Strategist

What's happening?

The outbreak of the coronavirus (COVID-19) is a human tragedy for all those affected, and recent heightened concerns are spilling over into global economic and capital market concerns – causing sharp drops in market values and an increase in volatility.

Capital market investors are facing the difficult task of incorporating a worrisome event, that is evolving by the hour, into market prices. Whenever that happens, especially where fear and uncertainty are involved, market responses are a swirl of both emotions and a reassessment of fundamentals.

It is impossible to know in advance the magnitude of the virus' impact, but we do see it as a sizeable exogenous shock to both demand and supply. The extent of the economic damage not only depends on the degree to which the virus spreads but also the extent of government reactions through quarantines and restrictions on mobility and activity. There are also the potential impacts on consumer and corporate behaviour.

Capital markets will tolerate some economic disruption if it is viewed as temporary and largely transitory. The belief is that, outside of tourism, other consumption would be expected to see a post-crisis bounce to offset the lost output. Until recently, equities had been eager to adopt this view, looking past what is expected to be a valley for Q1 growth. As the virus has spread, that belief is being challenged and recent days have seen equities moving lower to price in some damage to the growth outlook. In the background, capital markets are being influenced by reassurances (and measures currently being adopted) from government fiscal and monetary authorities that they stand ready to respond with stimulus measures should that be deemed necessary.

What to expect? More volatility.

We expect that markets won't stabilize until fear and the number of new cases has peaked. This does not mean that equities will remain in a free-fall throughout the crisis, simply that volatility will remain elevated. Once signs of improvement emerge a "relief rally" can ensue (here it's important to note that improvement does not require any sort of "all-clear" declaration, just news of "less-bad" data). We would then expect the most beaten-down assets (in today's markets, we see those as emerging market equities, airlines, oil, copper to name a few) to see such a rally.

GLC's take on the market sell-off.

We see this equity market check-back as reasonable, and – from a market conditions perspective - healthy, especially given the stretched level of valuations and overbought conditions that exist(ed) in many equity markets. Going into this recent period of weakness, the risk of disappointment for equities was already very high. The S&P 500 had risen 17% from early October to Feb. 19 (an annualized move of 51%!). Corrections of 10% or more (peak to trough) are not an extraordinary or unusual move for stocks, especially given how hard stocks have run.

Bond markets, as expected, are benefiting from the risk-off trade and helping to stabilize the equity market volatility within portfolios. Right now, GLC's fixed income portfolios and balanced fund positions in fixed income are delivering an important positive performance offset to equity market weakness.

What GLC's portfolio managers are doing?

The benefits of active management are most often realized during periods of market volatility. At GLC, we adopted a slight defensive position in the fall of 2019, largely predicated on concerns over equity valuations. The coronavirus wasn't on anyone's radar until early 2020, but **our slight defensive position today affords us the liberty to assess the unfolding events from a position of strength**. In addition, the healthy reaction of the markets (penalizing the most over-valued of assets) may reveal buying opportunities for high-quality holdings at more reasonable valuations. **GLC's portfolio managers are watching events closely, but by and large, see this as an opportunity to add value and contribute to strong long-term investment performance.**

What should investors do?

Market corrections are uncomfortable, but we caution investors against emotional reactions that take them away from their well-balanced and risk aligned investment plans.

Here are five ways we feel investors can stay on track to meeting their investment goals, and keep their investment plans healthy in today's markets:

1. Don't panic. Making emotional decisions in response to scary headlines can lead to knee-jerk, over-reactions that can be contrary to long-term value creation.

2. Reap the added value of active portfolio management. Disciplined processes, expertise in focused areas of the market, experience to recognize opportunities – these are all areas of added-value that active portfolio managers can bring to the table. Now is the time when active management differentiates itself – protecting on the downside and taking action when good buying opportunities present.

3. Work with your financial advisor. Determining your risk tolerance, the time horizon of your most important investment goals, and your overall financial plan is critical to helping you stay on track toward your goals during times of market volatility.

4. Have a plan for times like this. Use today's experience to check-in on how market volatility affects you. Are you cool as a cucumber, or having trouble sleeping at night? Knowing what affects you most can help you pre-set strategies to remind yourself of the long-term investment strategies that went into building your investment plan to meet your goals.

5. Find a trusted and straightforward resource for market insight. GLC's goals are aligned with those of our investors, and we take pride in cutting through the noise of dramatic headlines. Be wary of headlines that ignite fear and encourage short-term thinking.

GLC's portfolio managers are not abandoning their well-thought-out investment strategies, and we don't think investors should either. In fact, the value of an investment plan that keeps a long-term focus on your goals increases during times of market volatility with the ability to capitalize on market opportunities.

For more, see **The markets' reaction to the coronavirus: A deeper look at GLC's views and 2020 investment outlook.**

Copyright 2020 GLC. You may not reproduce, distribute, or otherwise use any of this article without the prior written consent of GLC Asset Management Group Ltd. (GLC).

This commentary represents GLC's views at the date of publication, which are subject to change without notice. Furthermore, there can be no assurance that any trends described in this material will continue or that forecasts will occur; economic and market conditions change frequently. This commentary is intended as a general source of information and is not intended to be a solicitation to buy or sell specific investments, nor tax or legal advice. Before making any investment decision, prospective investors should carefully review the relevant offering documents and seek input from their advisor.

© GLC Asset Management Group Ltd., 2011-2019