Monthly Market Insights

Data and opinions as of March 31, 2020

Stock market meltdown in March

The COVID-19 outbreak rages on and shows little sign of slowing. In an effort to “flatten the curve,” significant portions of the global economy have come to a halt as people stay home and businesses shut their doors.

As investors attempt to digest the rapid news developments, there have been record-breaking market movements over the last month. From its all-time high on February 19, the S&P 500 dropped 26.7% by March 12, the quickest ever descent to a bear market, ending the record 11-year bull run in U.S. equities. Policymakers around the world have announced unprecedented waves of monetary and fiscal stimulus, a clear signal they are willing to do whatever it takes to cushion the economic impact.

The NEI perspective

COVID-19 ravages the global economy and global markets. With countries around the world in lockdown to slow the spread of the virus, economic activity is plummeting and unemployment is soaring. Stocks sold off, volatility spiked, and even bonds faced liquidity issues.

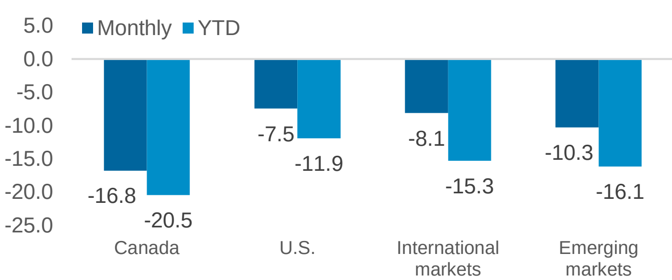
Record stimulus from U.S. and Canada. Central banks in Canada and the U.S. dropped interest rates to near zero and injected over one trillion dollars into the financial system. Their respective governments also announced fiscal stimulus packages of approximately 10% of GDP, joining other countries with aggressive packages to stabilize their economies.

Too soon to call the peak in new COVID-19 cases. We have seen a peak of new cases in China and South Korea and hopefully hard-hit Italy. No signs of a peak in Canada or the U.S., but we are seeing developments to help fight the virus such as social distancing, faster tests, more ventilator production, and potential new vaccines.

From NEI’s Monthly Market Monitor for April 2020. Click here to get the full report.

Equity

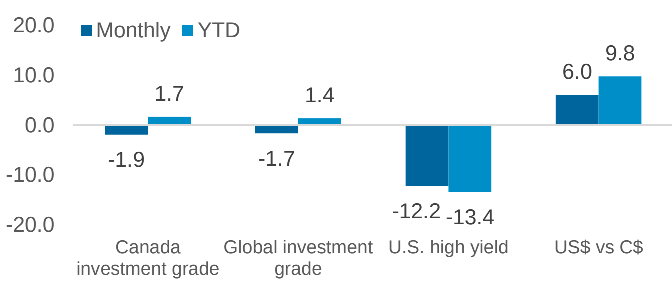
% return in C$



Canada: MSCI Canada; **U.S.:** MSCI USA; **International markets:** MSCI EAFE; **Emerging markets:** MSCI Emerging Markets. Source: Morningstar.

Fixed income and currency

% return in C$



Canada investment grade: Bloomberg Barclays Canada Aggregate; **Global investment grade:** Bloomberg Barclays Global Aggregate; **U.S. high yield:** Bloomberg Barclays U.S. High Yield. Source: Morningstar.

The risk of market timing

A stock market cycle is the period of time from the market top to the bottom, then up again to a new top. The fall from top to bottom is a “bear” market, and the rise from bottom to new top is a “bull” market. Market cycles tend to lead economic cycles (a period of economic growth, decline, then growth again) by 12 to 18 months.

Using the 2008 financial crisis as an example, we can see in the chart below the U.S. stock market started to fall 14 months before officials announced the recession. The same happened in the recovery, as stocks started rising 18 months before the end of the recession was identified. By then, the S&P 500 had already gained 74%.

It’s never a good idea to try to “time” the market by buying and selling investments to avoid losses or capture gains, and the complex relationship between economic and market cycles is a good example of why that’s risky. If you stay invested through the good times *and* the bad, you won’t miss what could be significant gains, whenever they occur.

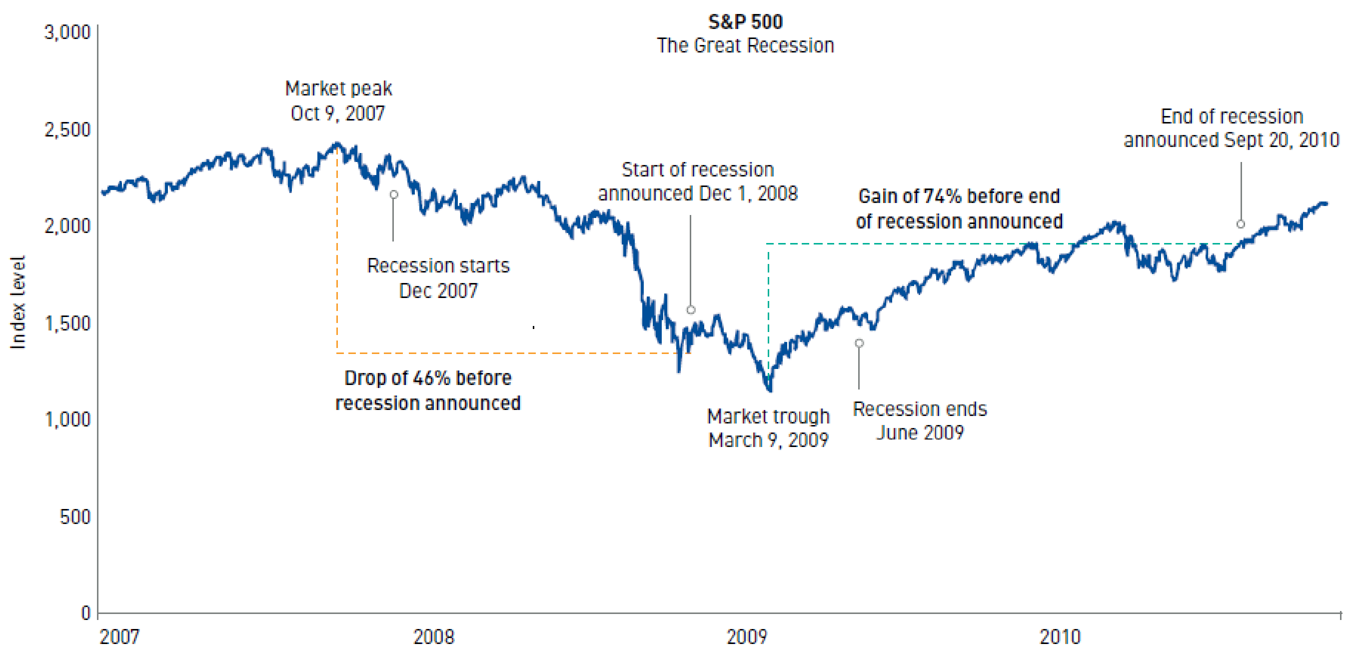


Chart is for illustrative purposes only. S&P 500 in US$, including dividends, from January 3, 2007 to December 31, 2010. Index returns do not include fees; you cannot invest in an index. Index data source: Bloomberg. Recession data source: National Bureau of Economic Research, accessed March 16, 2020.