

## Volatility Continues to Impact Financial Markets

March 9, 2020

Over the last few weeks, investors have had to endure increased volatility in financial markets. This morning we awakened to a drop of as much as 30% in the price of oil on the back of news that Saudi Arabia fired the first shots in a price war. We haven't seen a drop of this magnitude since the early 90s Gulf War! Add in the continued concerns over the spread of the coronavirus and its impact on the global economy and we have a one-two punch situation.

Recognize that we are used to volatility as the Dow Jones Industrial Average fell or rose by more than 1,000 points last week alone. The average absolute daily move in the DJIA has risen from less than 25 points in the early 1990s to over 100 points per day in three of the last five years. Putting this volatility into perspective: over the last five years the DJIA has risen or fallen by an absolute average of 0.6% per day—in line with the 30-year average of 0.7% per day. Remember that these short-term movements experienced over the past few weeks tend to be washed away over time.

This morning, shortly after the opening-bell, the S&P 500 fell 7% and triggered a “circuit breaker” which hasn't occurred since the mechanism was introduced in 2013. At this writing, the index is still down 6% as chaotic trading is characterizing the market. Under these circumstances, investors would be ill advised to make any moves as there is a lack of buyers in the market. Our Global Equity and Growth & Income portfolios are somewhat shielded from the sectors that are declining the most. Our thematic approach that identifies major long-term investment themes such as Information Superhighway, Productivity Facilitators and King Consumer keeps us away from sectors such as energy which is down more than 13% today.

On a positive note, the crash in oil prices will accrue to the consumer and other users of oil. This is the reverse of what happened back in 1973 when the Arab Oil Embargo penalized consumers and triggered the recession of 1974. After the smoke clears, we would expect to see rising consumer confidence and increased spending that will contribute to economic growth.

The spreading coronavirus continues to be a problem of unknow magnitude. We must wait out this crisis until it dissipates, or we have a solution. We don't know WHEN the virus will be cured but we know that it WILL be cured.

The best action to take right now is to wait it out.