RECENT MARKET VOLATILITY

FEBRUARY 2020

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Volatility returned to the global markets in the last few days due to fears over the coronavirus. Since February 19th, the S&P 500 fell by-7.5% while the 10-Year Treasury yield reached a new all-time low at 1.31%. As we stated in our January Recap, a pullback in the equity market was somewhat expected after an increase of +31.5% in 2019. The latest selloff only takes the S&P 500 to its mid-December 2019 level. The equity market does not usually go up in a straight line, and some volatility is perfectly normal. Over the last 40 years, the S&P 500 has averaged intra-year price declines of-13.8%. We will continue to help our clients navigate through challenging markets by ensuring their short-term cash flow needs are covered, while managing the rest of their assets in globally diversified portfolios designed to meet longer-term goals.

We will provide detailed commentary in our February 2020 Recap next week. However, we would like to put the current sell-off in perspective by referencing some of our Client Question of the Month pieces that address these volatile environments.

Equity Markets

- Benefit of a long time horizon- S&P 500 performance over 10-Year periods **(May 2019)**

  Our main takeaway from this analysis is that equities have generally produced positive results over long-time periods. This reinforces our philosophy that the best approach is to maintain a long-term viewpoint as equity markets can be extremely volatile over short time periods. Periods of market weakness also create opportunity for long-term investors as they can reallocate to more attractive securities, execute tax loss harvesting strategies, and/or add new money to purchase at lower prices. We understand that no one likes market declines, but we can use these periods to our client's advantage by making meaningful adjustments and improvements to their portfolios.
- Market volatility is common **(November 2018)**

  Despite overall positive returns since 1980, there were plenty of declines along the way as the average intra-year price decline was-13.8%. The data makes sense as since 1950 the stock market has averaged at least one correction each year. Since we plan for stock market volatility and we incorporate these assumptions into our financial plans, we are less likely to overreact when it happens.
- Markets climb a "wall of worry" **(February 2019)**

  An old investment adage is that the stock market climbs a "wall of worry." This simply means that the market has risen over time despite a constant barrage of potential risks that could cause a correction or decline. Each quarter we publish our own set of potential risks along with our market outlook. Our role at Winthrop Wealth is to help our clients identify and manage risk and navigate through the noise by providing a detailed financial plan combined with a structured, consistent, and repeatable investment process.
- Market timing does not work **(January 2019)**

  Market timing is an investment strategy that is implemented by selling a large portion of equity holdings when the market is high, patiently waiting on the sideline as the market declines, reinvesting at the market low, and then riding the market back up to new highs. Rinse and repeat. Although this might sound easy, the reality is that successful market timing is nearly impossible to execute consistently. Keep in mind that if an investor discovered the magic formula to market timing, they would essentially be able to make an unlimited amount of money. There is no magic formula.

Fixed Income Markets

- Negative Interest Rates **(August 2019)**

  Negative interest rates could occur in the United States under two scenarios, either the Fed¬eral Open Market Committee (FOMC) sets the federal funds rate below zero or longer-term bond prices increase enough that their yield goes negative (bond prices move inversely to yields). Our conclusion is that negative interest rates are not probable under normal circumstances and only possible in a severe economic recession. Minutes from the October 2019 Federal Reserve meeting stated that, "negative interest rates currently do not appear to be an attractive monetary policy tool in the United States."
- Inverted Yield Curve **(March 2019)**

  A yield curve inversion occurs when short-term Treasury bond maturities have higher yields than longer-term maturities. Historically, the average lag time between a yield curve inversion and the start of a recession has been about a year-and-a-half. As always, we will remind our clients not to overreact to a single data-point and highlight that a yield curve inversion is only an indicator – it does not in and of itself cause a recession. We are closely monitoring the yield curve and other recession indicators, but for now our outlook is another year of decent economic growth.

At Winthrop Wealth, we apply a total net worth approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a roadmap to each client's unique goals and objectives. The comprehensive financial plan defines cash flow needs, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection. As always, please contact us if you have any updates to your personal or financial circumstances.

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The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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