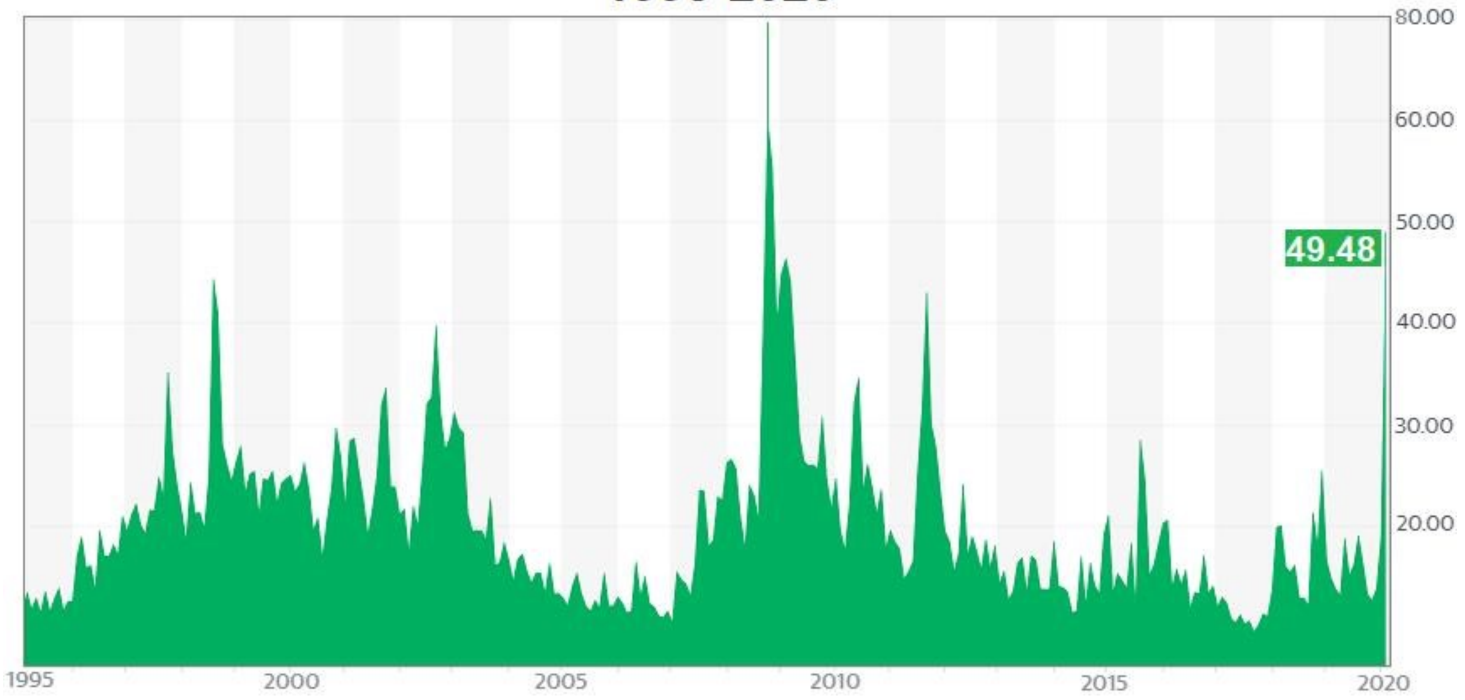
Chart of the Month

March 2020

CBOE VOLATILITY INDEX (VIX)
1995-2020



The news flow regarding the coronavirus caused the stock market to suffer its worst week since the financial crisis in 2008 and the fourth-most damaging since 1950. The sell-off has been historically swift with the 10% correction from the peak on February 19 the fastest ever recorded. Altogether, the S&P 500 has declined 14% in just seven trading sessions since the all-time high a week ago Wednesday.

As shown in the chart above, the CBOE Volatility Index (VIX) – often referred to as the "fear index" – traded as high as 49.48 on Friday, the highest level recorded since the index was established in 1990, other than 2008-2009. Moreover, at 43.8, the ratio of the VIX to the 10-year Treasury yield (1.13), perhaps an even better gauge of market fear, has never been higher (inclusive of 2008-2009).

While mainland China reported the lowest number of new cases in more than a month, the World Health Organization (WHO) raised its global spread and impact risk alert to "very high" on Friday due to the fact that the coronavirus has swelled to 59 countries (with about three-quarters of new infections arising outside of China). Worldwide, there have been more than 84,000 cases and nearly 2,900 deaths tallied (with China accounting for 94% and 97%, respectively). Roughly half of the cases have been closed and 82% of the active cases are considered mild. (There have been 62 cases and no deaths in the U.S.)

Without minimizing the effects on the global economy in the first half of the year, we believe the fears surrounding the coronavirus are spreading faster than the disease itself. As such, the stock market appears to be in full-panic mode with selling begetting selling to the point of becoming a self-fulfilling prophecy. While the risks are real and there are many unknowns, we would argue that stock prices have disconnected from the fundamentals prior to the outbreak and from those that are most likely to prevail six months from now.

In a mid-day statement on Friday, Federal Reserve Chairman Jerome Powell said, "The fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity. The Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy."

Of note, the fed funds futures market is currently predicting a 100 percent chance of a rate cut by March 18, with roughly a two-in-three chance of a 50-basis point reduction (to 1.00-1.25%). Meanwhile, the one-year, two-year, and five-year Treasury Notes are yielding 1.00% or less. Accordingly, by lowering the funds rate by a half point, the Fed would just be catching up to the levels in the bond market.

As a reminder, the stock market fell nearly 20% during the fourth quarter of 2018. The downturn was painful but we managed to remain objective, calm, and eventually opportunistic. We more than made back any "losses" in 2019 and our client portfolios extended their gains in early 2020 prior to the free fall over the past week-and-a-half. The S&P 500 is now much closer to the bottom rather than the top of its channel over the past ten years (see below). History has shown that the future returns have been compelling after undergoing corrections like the market has experienced of late.

We recognize that investors loathe uncertainty and many traders tend to sell first and ask questions later. However, we would be remiss if we didn't point out that it is much easier to sell on the way down than to buy back at even lower prices. Staying the course has proven to be a better strategy than trying to time the market. Raising money, if and when needed or to allow one to sleep more comfortably at night, is understandable. Nevertheless, absent a change in investment objectives or time horizon, we encourage clients to focus on their long-term goals during turbulent times.

S&P 500
2010 - 2020

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