COMMENTS ON THE RECENT MARKET VOLATILITY

The past two weeks saw a dramatic increase in market volatility with large swings in equity markets, falling interest rates, and now plummeting oil prices. Compounding upon already virus-stressed markets was the breakdown in discussions over oil production cuts between Saudi Arabia and Russia, which led Saudi officials to announce plans to increase crude oil output and cut official selling prices. The impact of this breakdown, on the heels of an oil demand-shock triggered by coronavirus concerns and quarantines in China and now Italy, was a monumental drop in oil prices. The price of oil is often considered a sign of economic health, as are interest rates.

After rates in the U.S. had already fallen to record lows, the pressures from today’s market stress pushed the entire U.S. yield curve to below 1%, as investors sought safe-haven assets. High yield bonds, and most notably the already-stressed energy sector which comprises 11% of the high yield market, came under additional pressure. However, given the preexisting conditions in the energy sector, spreads have only widened to historical averages. Equity markets, down over 10% from their mid-February peak, have now returned to the levels witnessed in June of last year, eliminating the late-2019 surge, but remain well above the late-2018 levels that bottomed on Christmas Eve 2018.

These market swings illustrate the ever-present volatile conditions of the markets, but when volatility spikes and conditions change abruptly and rapidly, dramatic swings can be alarming. For these reasons, our clients hold diversified portfolios built to withstand these periods of turmoil. Diversification cannot eliminate the volatility, but it can mitigate volatility’s impact. Further, we encourage clients to consider their strategic plans established in their investment policy statements, plans made in a period of calm, so that when volatility such as this takes hold, rebalancing or opportunistic investments can be made. Also, the first order of opportunistic investing is occurring now, as clients’ active managers are seeking opportunities to take advantage of a scarcity of capital.

We are continuously evaluating economic and market conditions and will share our insights as they develop. To that end, we encourage you to view our recent publication addressing the coronavirus and the market impacts, originally published in late-February, and republished last Friday with additional content addressing more recent events.

https://www.feg.com/insights/coronavirus

The risks posed by the coronavirus outbreak, most importantly the potential for loss of life on top of the economic consequences, require a thoughtful approach to managing our firm and our engagement with clients. As such, we have also released the following information on how we are addressing business travel and ensuring that we engage with our clients appropriately.

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