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VOLATILITY RETURNS TO THE MARKETS

At the time of this writing, the broad US stock market (S&P500) has declined about 12% from its most recent high, marking an official market “correction”. In Canada the broad index has declined about 7.5%. The US market is down to a level first reached in November 2019, while the more narrow Dow Jones Industrial Average is at a level first reached in January 2018. Of course, the question we all ask is “where does it go from here?”.

As we know, the main cause of this downturn has been the spread of the coronavirus, and the impact on the global economy. “This has many economic implications,” says Wharton management professor Mauro Guillen. “It has implications not just for China, but for the entire world. The world depends on Chinese growth,” he says, citing both the country’s supply-chain role and consumer buying power. Still, he notes: “It is unclear how much impact in the end this is going to have.”

The last correction we experienced ended in December 2018, at which time the S&P500 had declined almost 20% from its previous high level. While the catalyst for these corrections varies from time to time, the net result is very similar for each occasion - namely a broad market decline across most sectors and industries. Typically in times like this, we also see a flight to safety, resulting in gains for other asset classes such as bonds and gold.

At this point we do not know the potential extent to which this epidemic will spread, or how and when it will be contained. Likewise, we will not be able to predict its effect on the global economy for some time. In this, as in previous periods of market disruption, we continue to focus on the things we can control - namely our asset allocation and diversification. Balanced portfolios that hold bonds as well as stocks, will see less dramatic drawdowns due to the cushioning effect of bonds on the overall volatility. Since timing our way into or out of any specific asset class can be difficult if not impossible to perfectly execute, periodic rebalancing can help to keep the asset allocation in line with your long-term strategy, and allow us to “buy low and sell high” without having to make market timing decisions.

Market volatility is inevitable, and it can be unnerving when it occurs. However, downturns tend to be temporary and having a well-diversified portfolio that is aligned with your true tolerance for risk should help to ease our concerns as this current situation plays out.

As always, please contact your CM Group advisor should you have questions or concerns about your portfolios.

Sincerely,

Greg, Colin, Steve and Blair.
The CM Group

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