Market Bears Awaken

March 2020

- The S&P/TSX Composite Index crossed the 20% decline level that technically marks a bear market.
- It's important to remember that these market gyrations, while painful, are to be expected.
- At SEI, we take the possibility of market downturns into account when constructing long-term portfolios.

The S&P/TSX Composite Index crossed into bear market territory on March 11—defined as a decline of at least 20% from its recent peak. Many airline companies and energy stocks surpassed this threshold with even steeper drops, as equity prices were burned by accelerating uncertainty about the coronavirus and the outbreak of an oil-price war between Saudi Arabia and Russia.

For long-term investors, we don't see these events as a reason to change long-term portfolio allocations.
In our view, while losses may be significant, neither the virus nor declining oil prices represent typical catalysts for a recession. On the contrary, lower oil prices also have the silver-lining effect of reducing energy expenses for business and consumers; and as the virus' impact on markets fades, so too should its bearing on the global economy.

Also, it is important to remember that declines of this nature are to be expected. At SEI, we take the possibility of market downturns into account when constructing our long-term portfolios—meaning that losses as a result of occasional market downturns are factored in to long-term return assumptions.

Bear market perspective

Stocks generally do not make gradual moves during bear markets. Instead, they tend to spike higher and lower from day to day. Nowhere are those spikes more dramatic than when the market hits a bottom.

Over the last 50 years, the S&P/TSX Composite Index has experienced nine major bear market cycles—those exceeding a 20% price decline. On average, these bear market cycles lasted about 10 months, lost 35%, and took 32 months to fully recover.

Exhibit 1: Nine Previous Bears

Peak Date	Trough Date	Recovery Date	Length (Days)	Percent Loss
5/1/1970	6/1/1970	8/1/1972	792	28.32%
10/1/1973	9/3/1974	10/12/1978	1500	37.34%
2/29/1980	3/27/1980	7/23/1980	118	22.35%
11/28/1980	7/8/1982	5/6/1983	302	43.95%
8/13/1987	10/28/1987	8/25/1993	2128	31.00%
4/22/1998	10/5/1998	11/25/1999	416	31.78%
9/1/2000	10/9/2002	1/3/2006	1182	49.99%
6/18/2008	3/9/2009	6/18/2014	1927	49.80%
9/3/2014	1/20/2016	2/10/2017	387	24.36%

Source: Bloomberg, SEI
Data as of 3/10/2020

Equity bears bring out bond bulls

The U.S. Federal Reserve recently made its largest emergency cut to short-term interest rates since the financial crisis of 2008 to 2009. The recent move was an attempt to curb the potential economic fallout from the coronavirus. The yield on the 10-year U.S. Treasury is at an all-time low. After closing 2019 at 1.92%, the yield on the 10-year U.S. Treasury plunged below 0.50% on March 9, according to the U.S. Treasury Department (yields and prices move inversely).

Although low yields are unattractive from an income-generation perspective, bonds do not merely serve as a source of income in a portfolio. They also help offset stock market losses in times of turmoil for equities.

Stay calm and stay invested?

Now is not the time to panic. If you're thinking about selling equities to avoid losses, it's probably already too late. If you do sell now, you'll eventually be faced with deciding when to buy back into equities. Our research shows that timing the decision to get back in is just as difficult as timing the decision to get out, and investors are notoriously bad at market timing.

Index Definitions

The S&P/TSX Composite Index is an unmanaged, market-weighted index that consists of 500 of the largest publicly-traded U.S. companies and is considered representative of the broad U.S. stock market.

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