ClarkCapital MANAGEMENT GROUP

Commentary

Navigator® Market Update

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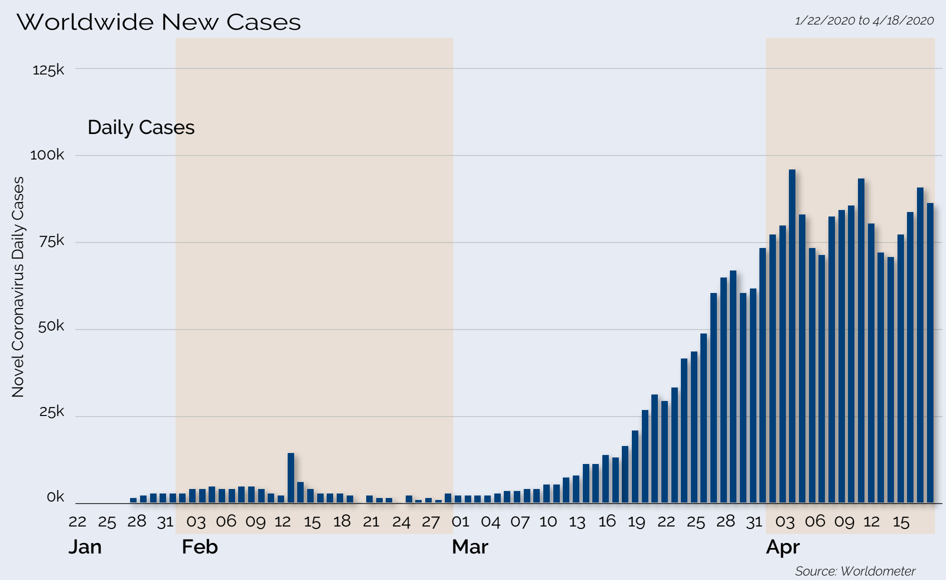
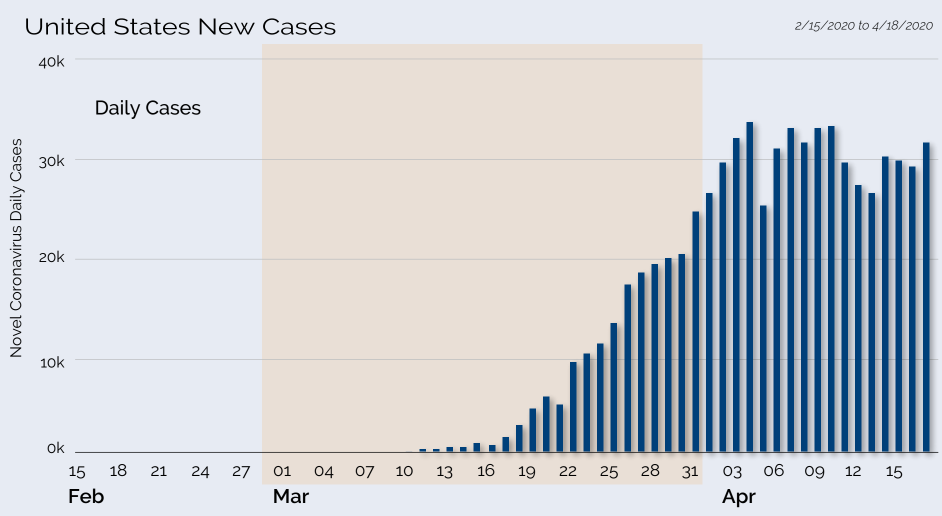
So, Now What?

Though far from certain, it *appears* that the worst of COVID-19 MAY be behind us, and perhaps the worst of the stock market correction is behind us as well. The two are clearly closely related. Neither the virus nor the market will improve in a straight line, and fits and starts should be expected. That being said, there may be some light at the end of the tunnel.

First, let's look at COVID-19. At this point, worldwide daily new cases peaked on April 3rd at 96,031. In the U.S., daily new cases peaked on April 4th at 34,196.





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Although social distancing measures have helped slow the number of new cases, the number of people testing positive still exceeds the number of people who are recovering on a daily basis. Therefore, the number of infected people (or active cases) continues to increase. But, we are getting closer to that famed "flattening of the curve". Sadly, there will be many more deaths, but the worst-case outcome of millions of deaths and a healthcare system that became completely overwhelmed appears to have been averted.

Next, let's look at the stock market. We just endured the most rapid decline into a bear market (down 20% in 16 days) and beyond (down 30% in 22 days). From the S&P 500's closing high on February 19th, the index declined just shy of 34% by March 23rd. That is an astonishing drop in just over a month! Stocks were discounting a doomsday scenario. COVID-19 daily new cases had not yet peaked, and no one knew when exactly that would happen.

The CBOE Volatility Index, or VIX, closed at an all-time high on March 16th at 82.69, one of only three times in history that this Index had ever closed above 80. Now less than one month since the March 23rd low for the S&P 500, the index has rallied 27.7% and could now be considered in a bull market! The VIX, has settled down, and closed below 40 on Friday, April 17th. Keep in mind that this is still a high level of volatility being priced into the market and is just above twice the long-term average. In fact, 35 of the 41 trading days since the market high on February 19th, the S&P 500 has moved by more than 1%. This compares to an annual average of about 62 days. We would expect this elevated volatility to continue for a while as virus, economic, and earnings data are digested.

Much like stocks, we would expect COVID-19 data to be in an improving trend, although choppy. Economic data will deteriorate for a few months or more. Unemployment is a good example. The official unemployment rate is released once a month. The last release on April 3rd showed an increase to 4.4% for the month of March. This was a big increase from the 3.5% unemployment rate for February, which was near a 50-year low. The number of people filing for first time unemployment benefits, known as initial jobless claims, is released weekly. Over the last four weeks, 22 million people have filed for first time unemployment benefits. This suggests that the next unemployment rate which will be released on May 8th will be approaching 20%! That is a terrifying number! But remember, stocks are a forward-looking asset class. What that means is that news that is "known" is reflected in stock prices.

More COVID-19 cases and deaths are widely known, as is the fact that economic numbers will look awful for a few months. But stocks also will reflect what is expected to happen. In the middle of March, the range of possible outcomes was gigantic, as the severity of the virus was uncertain and thus the magnitude and duration of the economic shutdown was uncertain. Today, the possible range of outcomes, although still wide, has shrunk and a path to recovery (both from a health and economic standpoint) can now be envisioned.

So, where does that put us? The short answer is that we are on a gradual road to recovery. We are hopeful that the worst of the virus and stock news is behind us. We are not so naïve to think that things will be back to normal overnight, but we do believe conditions are improving. As dramatic as the stock decline was, the 27% rally in 18 days is also eye popping. Don't expect there to be improvements in either the pandemic or the stock market every day. In fact, expect more turbulence on this flight and keep your seat belt fastened. While we do expect a safe journey, investors should expect to be jostled around along the way.

Stay calm and stick to the long-term plan. These are the times that highlight the value of a solid financial plan, a well-diversified portfolio and a rational, long-term perspective. These are the times that determine the likelihood of a client achieving their financial goals. The surest way to miss the mark is to waiver when things get choppy. We believe the surest way to achieve long-term goals is for investors to stick to their original plan that was developed at the beginning of their journey, when they were calm and logical, not emotional.

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The S&P 500 Index is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States.

The CBOE Volatility Index is a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

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