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Market Bears Awaken

March 2020

- The FTSE UK Series All Share 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 FTSE UK Series All Share Index crossed into bear market territory—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 US 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 FTSE UK Series All Share Index has experienced six major bear market cycles—those exceeding a 20% price decline. On average, these bear market cycles lasted about 17 months, lost 41%, and took 30 months to fully recover.

Exhibit 1: Seven Previous Bears

Peak Date	Trough Date	Recovery Date	Length (Days)	Percent Loss
1/31/1969	5/29/1970	9/30/1971	489	33.70%
4/28/1972	11/29/1974	7/31/1978	1340	70.55%
1/30/1976	10/29/1976	3/31/1977	153	28.90%
7/16/1987	11/10/1987	7/29/1991	1357	36.64%
1/3/1990	9/24/1990	4/5/1991	193	21.58%
9/4/2000	3/12/2003	1/3/2007	1393	47.27%
6/15/2007	3/3/2009	5/10/2013	1529	48.79%

Source: Bloomberg, SEI
Data as of 3/9/2020
Month-end data used prior to 1/1/1985

Equity bears bring out bond bulls

The US Federal Reserve recently made its largest emergency cut to short-term interest rates since the financial crisis of 2008 to 2009[1]. The recent move was an attempt to curb the potential economic fallout from the coronavirus. Yields on the 10-year US Treasury are at all-time lows. After closing 2019 at 1.92%, the yield on 10-year Treasurys plunged below 0.50% on March 9, according to the US 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.

[1] Source: Wall Street Journal

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