JOHNSON
INVESTMENT COUNSEL

Quarterly Insight

MARKET UPDATE

2020: FIRST QUARTER

COVID-19 SHOCKS THE WORLD

As 2019 drew to a close, investors were enjoying a fantastic year of stock-market gains, unemployment had reached record lows, and the U.S. economic expansion appeared on track to continue into 2020. As always, there was a list of concerns confronting investors (impeachment, trade wars, and elections in particular), but no one knew how trivial those concerns would soon become. At the same time, a then-unfamiliar coronavirus was beginning to spread in Wuhan, the capital city of Hubei Province in central China.

Within a matter of weeks, the virus would spread around the globe and grow into a global pandemic. As the number of infections and deaths mounted, government restrictions and ultimately lockdowns began, relegating hundreds of millions to their homes. The effects of the widespread shutdown sent shock waves through the global economy and fueled a brutal stock-market selloff. This unprecedented turn of events is unlike anything the world has ever seen, and its ultimate impact on life, the economy, and the financial markets will not be known for some time.

HISTORIC FINANCIAL-MARKET VOLATILITY

Initially, stocks took the news of a novel virus in China in stride. After a flat January, U.S. stocks gained in early February before peaking on the 19th. But once investors and the general public began to recognize the seriousness of the situation, stocks began a nosedive.

- By the 27th, stocks had fallen more than 10%, into official correction territory. As cases skyrocketed in South Korea, Iran, and Italy, the panic spread. Selling was indiscriminate.
- On March 9th, oil prices fell 25% in a single day and stocks fell 7% at the open, triggering the first circuit-breaker market halt since 1997.
- Interest rates were also rapidly falling, and the yield on the ten-year U.S. Treasury fell to 0.50%.
- By March 11th, the 11-year bull market officially ended on the same day the World Health Organization labeled the coronavirus a global pandemic. It would get even worse.
- On the 12th the S&P 500 Index fell 9.5%. It rallied 9.3% the next day, the largest gain in a single day since 1933.
- Then on the 16th the S&P fell 12%, the third-worst day in index history behind Black Monday 1987 and Black Tuesday 1929.

In all, the S&P 500 fell 34% between February 19th and March 23rd, before a rapid three-day rally of more than 17% erased some of the losses.

SUDDEN, SEVERE ECONOMIC IMPACT

The market selloff was a reaction to the devastating blow coronavirus has dealt the global economy. As government officials around the world instituted increasingly

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TOTAL RETURNS

	1Q 2020
S&P 500	-19.6%
Dow Jones Industrial Average	-22.7%
NASDAQ	-14.0%
Russell 2000	-30.6%
MSCI EAFE (International)	-22.7%
Barclays Aggregate Bond Index	3.2%

» WEALTH MANAGEMENT
» FAMILY OFFICE SERVICES
» TRUST COMPANY
» ASSET MANAGEMENT

draconian restrictions to slow the spread, it became clear the economy would effectively be shut down temporarily except for certain critical industries. Travel and tourism is at a standstill as travel restrictions are in effect nearly everywhere. Restaurants are carry-out only (if they're open at all), retail stores are closed, and normally traffic-jammed roads are eerily quiet. Energy companies are in crisis as reduced demand compounded the existing problem of oversupply. Chinese shutdowns from January and February disrupted the supply chain, and subsequent European and American shutdowns exacerbated the problem. Thanks to technology, some workers are able to do their job while sheltering at home, but millions suddenly find themselves out of a job as their employers were forced to furlough or lay off employees. A record 10 million unemployment claims were filed in the U.S. in the last two weeks, moving the unemployment rate to an estimated 10%.

Estimates for 2nd quarter U.S. GDP range anywhere from -20% to -30%, which would be far and away the record. The speed and intensity of the shutdown has been stunning. It's possible the subsequent rebound could also be rapid. For now, the public waits and watches as policymakers and health officials attempt to determine when and how to gradually resume normal activity. The hope is this can be done in a safe manner and also in time to prevent deeper economic scars.

UNPRECEDENTED LEVELS OF GOVERNMENT INTERVENTION

Governments worldwide have been trying to support the economy and financial markets amid the turmoil. In the U.S., the Federal Reserve has pulled out all the stops, dusting off the toolkit from the Financial Crisis and quickly dropped its benchmark rate to zero while injecting hundreds of billions of dollars into the system. It has committed to purchase unlimited amounts of U.S. treasuries and mortgage-backed securities, and also reopened lending facilities that helped thaw the credit freeze that made the Financial Crisis so devastating.

The White House and Congress have passed three stimulus packages into law. The first was $8.3 billion on March 3rd aimed at funding for testing and small business loans. The second was worth roughly $100 billion and provided tax credits to employers and boosted unemployment and food assistance benefits. Then on March 27th the third and largest package, worth more than $2 trillion, was signed into law. This legislation includes checks to millions of households, substantial support for distressed industries, and loans and grants for small businesses.

All of these efforts undoubtedly soothed investors, but the question now is how much more might be necessary, and what the ultimate long-term implications will be. A fourth package is now being discussed, and it's likely the U.S. and other governments are not done throwing money at the situation.

UNCERTAINTY ABOUNDS

At this point there are still more questions than answers. Estimates of the ultimate toll of the virus vary widely. For the economy, the big question is the duration of the shutdown. It's also unclear what the process of phasing back in to normal life will look like. At that point, how many businesses will have gone under, and for those that survive, how many laid off or furloughed employees will be put back to work? To what extent and how long will wage growth be suppressed? It's likely that pent up consumers will emerge from quarantine ready to spend money, but how strong will the rebound in consumer spending be? For the stock market, the big question is what markets have already priced in. It's impossible to tell for sure, and company earnings estimates are moving around daily, making that judgment even more difficult.

FUNDAMENTAL TRUTHS REMAIN

At this point it feels as though the return to normal life is a long way off. And in some ways, this pandemic will change things about the way we live and work. Still, in reality, at some point this crisis will abate, effective treatments are likely to be found, and hopefully a vaccine will come to market sooner than later. Until then, it is wise for all of us to focus on what we know and what we can control. This is certainly the case when it comes to investing. In times of crisis, adherence to time-tested principles is more important than ever. Long-term success depends on the ability to stay disciplined by maintaining proper asset allocation, rebalancing when appropriate, and investing with an emphasis on quality.

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CARES ACT PROVIDES PLANNING OPPORTUNITIES

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law in late March, provides over $2 trillion of aid designed to help Americans weather the storm until the economy rebounds. The Act provides direct payments to families and individuals, loans to businesses, and tax policy changes benefitting both businesses and individuals. The Act also relaxes the distribution rules for retirement accounts in 2020, in part by suspending Required Minimum Distributions (RMDs) for those who would otherwise have been forced to withdraw a portion of their IRA. This opens the door to a number of planning opportunities, and we will provide a more detailed explanation of the Act and its planning implications in the coming weeks.

SEEING BEYOND THE RED

MARKET PERCEPTION AND THE CAPTIVE AUDIENCE

Without a doubt, we are living through historic times. The shutdown of the global economy and the accompanying speed of the declines in stocks rivals the steepest selloffs in history. This crisis is playing out against an almost inescapable backdrop of news coverage and social media. This creates a potentially toxic combination of investors confined to their homes in front of an endless stream of negative headlines.

This anxiety is exacerbated by the nature of how financial news is broadcast, which causes many investors to miscalculate the impact of market moves on their own portfolio. The stock market fluctuations are easy to observe on the news (green numbers when the market is moving up, red numbers when the market is declining). This makes for a simple calculation of "how much money my portfolio is losing" on a particular day. But what is rarely talked about and not so easy to calculate is the movement of the bond market, which typically holds up well during stock market downturns. This means holders of a diversified portfolio that includes bonds often overestimate their losses when stocks are falling. This dynamic raises the risk of panicked decision-making when investment discipline is needed most.

WE'VE BEEN HERE BEFORE

The cause of this bear market is unique, but the behavioral response investors are tempted to make has always been the same: panic selling at the most damaging times. This is not the first time we have seen so much red, and it will not be the last. One of our important roles is to stand in the way of damaging emotional decisions that could irreparably harm long-term growth potential. As recently as 2008-2009, and again today it is common to hear the greatest misconception held by prisoners of the moment: "This time is different." Without history as a guide, investors can lose their way, take a short-term and emotional view, and lock in losses before a portfolio is given a chance to recover. History teaches us that every bear market has one important thing in common: they have always recovered. By holding fast to a long-term and disciplined approach, investors with diversified portfolios can achieve their ultimate goals despite these bumps in the road.

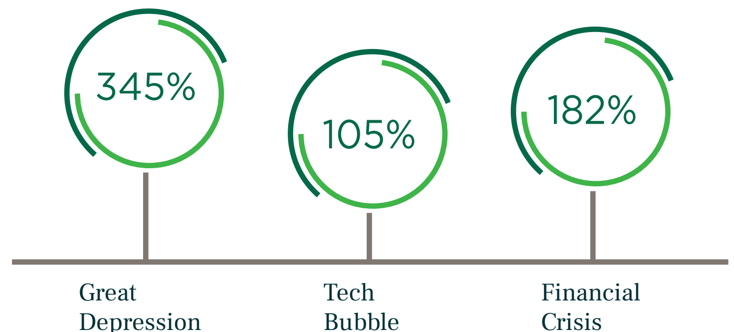
PROVEN FOUNDATIONS OF SUCCESSFUL INVESTING

Our counsel is based on time-tested, academic principles, not gut instincts or speculation about what will happen tomorrow, next week, next month or next year. This is the foundation of a comprehensive wealth-management plan. The most critical aspect of this foundation is proper asset allocation. Portfolios with the appropriate balance of bonds, cash, and stocks provide for current needs without being forced to sell stocks in the midst of bear markets. Adequate allocations of bonds and cash provide multiple years of reliable cash flow to survive even the most severe bear markets. A focus on diversification and portfolios of high-quality stocks and bonds further insulates portfolios from unnecessary long-term damage.

DISCIPLINED INVESTING FOR THE LONG TERM

History provides ample evidence to support the long-term approach of staying invested. For example, the average three-year return following the last 12 bear markets (some worse than this one) is 89%. Five years later the market had gained 132% on average. No one knows when the market will bottom and begin to rebound, but history suggests that it will.

5-YEAR RETURNS FOLLOWING BEAR-MARKET TROUGH (S&P 500 INDEX)



Source: Bloomberg

A fear-based strategy of selling stocks, moving to cash, and trying to time exactly when the bottom will occur has proven unwise historically. This "strategy" can do incredible harm to a portfolio. A study recently showed that missing just the five best days between 1980 and 2018 resulted in a portfolio value 34% lower than staying fully invested. It's worth noting that some of the best market days occur right after some of the worst market days, as we have seen in recent weeks. Because it's impossible to know when these will occur, the only way to get the benefit is to be in for all days, including the tough ones.

The volatility in recent weeks has been nothing short of historic. We have experienced two of the worst single-day selloffs in history, and the fastest-ever 30% decline (22 days). But we know the storm will eventually pass. The time will come when the "green days" once gain outnumber the red ones. Until then, we remain committed to the time-tested principles that have allowed clients to achieve their goals through the good times and the bad.

PROMOTIONS

We are pleased to announce that these individuals have been promoted to new positions:

- **Brandon A. Zureick, CFA**
  Director & Portfolio Manager, Principal
- **R. Ryan Martin, CFA**
  Portfolio Manager
- **Maxwell T. Monk, CFA**
  Portfolio Manager
- **Justin T. Rowden, CFP®**
  Portfolio Manager
- **Michael R. Timm, CFA**
  Portfolio Manager
- **Christian J. Brandetsas, CFP®**
  Associate Portfolio Manager
- **Andrew M. Kucia, CFP®**
  Associate Portfoio Manager
- **Leah B. Quortrup**
  Senior Trust Associate
- **Ann B. Grimaldi**
  Trust Associate

Zureick

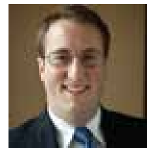
Martin

Monk

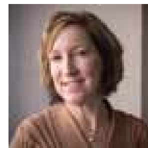
Rowden

Timm

Brandetsas

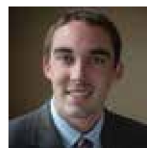

Kucia

Quortrup

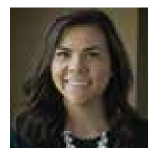

Grimaldi

NEW DESIGNATIONS

Johnson Investment Counsel is committed to continuing education to provide personal development for our employees and better service to our clients. Congratulations to Trust Officer, Lindsay Keith, CTFA, on earning her Certified Trust and Financial Advisor designation, Portfolio Manager Assistant David Christian, CFA, on earning his Chartered Financial Analyst designation, and Portfolio Manager Assistant, Gwen Keihl, CFP®, who has earned her Certified Financial Planner® designation.


Christian

Keihl


Keith

NEW ADDITIONS TO THE TEAM

- **Danielle O. Batchelder**
  Trust Associate
- **Joshua S. Lloyd**
  Operations Associate
- **Tori D. O'Leary**
  Client Support Assistant
- **Antonio R. Ramsey**
  Operations Associate
- **James M. Wineland, CIMA®, AIF®**
  Portfolio Manager
- **Casey R. Woodard**
  Portfolio Manager Assistant
- **Lincoln J. Yaldoo**
  Portfolio Manager Assistant

If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.

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ABOUT US

Johnson Investment Counsel, Inc. is one of Ohio's largest independent wealth management firms, managing nearly $13 billion in assets. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

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