Maintaining the Course – Coronavirus and Past Market Epidemics

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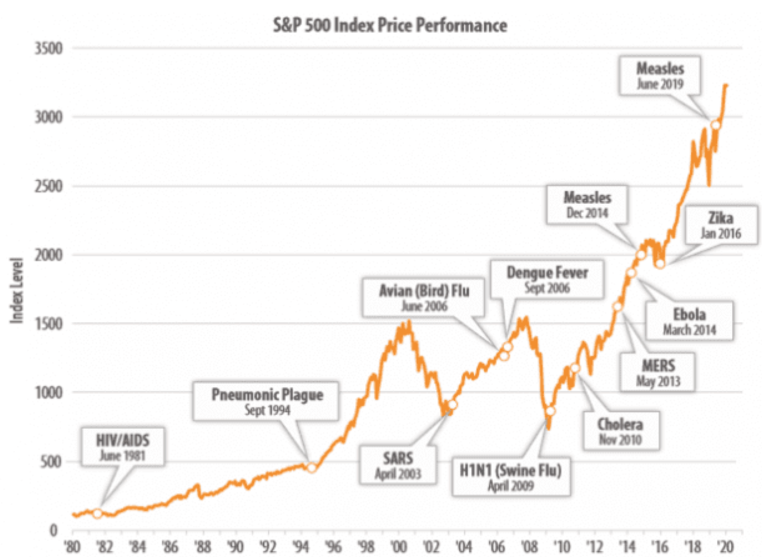
As of February 28, 2020, global stock markets have entered "correction" territory, defined as a 10% decline from the index high. This decline is in large part due to the uncertainty surrounding the new coronavirus, which was first detected in Wuhan City, China. The new coronavirus, named COVID-19, has now been recognized in 37 locations internationally, including the United States.

There will undoubtedly be an economic impact because of COVID-19. Growth is likely to slow due to quarantines, and there will likely be less consumer traffic and lower factory output. Still, the final results on global growth are yet to be determined. Stock markets, though, do not like uncertainty. As uncertainty has grown around this new coronavirus, the resulting fear has led to a quick and notable downward movement in the market.

Learn how employers can combat the spread of coronavirus in the workplace.

Past Market Epidemics & Their Impact

Epidemics in the past have also led to sharp pullbacks in the markets. **Over the long-term, however, the stock market has weathered past such epidemics**. The chart below looks at the historical returns of the S&P 500 Index during multiple epidemics over the last 40 years. **Over the 6- and 12-month periods following an epidemic, the S&P 500 performance has, on average, been positive**



Epidemic	Date	S&P 500 6-Month % Change	S&P 500 12-Month % Change
HIV/AIDS	June 1981	-6.6%	-16.5%
Pneumonic Plague	Sept 1994	8.2%	26.3%
SARS	April 2003	14.6%	20.8%
Avian (Bird) Flu	June 2006	11.7%	18.4%
Dengue Fever	Sept 2006	6.4%	14.3%
H1N1 (Swine Flu)	April 2009	18.7%	36.0%
Cholera	Nov 2010	13.9%	5.6%
MERS	May 2013	10.7%	18.0%
Ebola	March 2014	5.3%	10.4%
Measles	Dec 2014	0.2%	-0.7%
Zika	Jan 2016	12.0%	17.5%
Measles	June 2019	9.8%	N/A*
Average Price Return		8.8%	13.6%

Observations

- 6-month change of the S&P 500 Index following the start of the epidemic was positive in 11 of the 12 cases, with an average price return of 8.8%.
- 12-month change of the S&P 500 Index following the start of the epidemic was positive in 9 of the 11 cases*, with an average price return of 13.6%.

During times of uncertainty and market volatility, it's typically prudent for plan participants to "stay the course." Still, it is also prudent for them to review their investment strategies (e.g., "What's my risk tolerance? When will I retire? When will I need this money?") to ensure they're on the most appropriate path. A new course of action is only warranted if it's more appropriate than the current path.

Determining The Right Path for You

Evaluating one's situation - having the most appropriate asset allocation or glide path and high enough contribution rates - can lead to the most positive actions a participant may take in saving for retirement. **Bailing out of the markets and a retirement plan is typically an imprudent action**. **And exiting the markets is often detrimental to reaching future long-term retirement goals.**

Data indicates that attempting to time the market generally proves futile for individuals. Current market conditions rarely provide a clear direction as to the future performance of the markets. The U.S. market, in particular, has been dynamic and resilient in moving on from crisis after crisis, throughout history.

The recent market volatility should remind plan participants to focus on what they should be doing regularly. Be mindful of the situation, but diligent about your investment strategy. Participants need to act in their own best interests while the stock market reacts to the current coronavirus and the uncertainty it brings - another bout of unexpected short-term market volatility.

*And, if you have more questions about maintaining the course for your retirement, contact The Olson Group at **402.289.1046** or info@theolsongroup.net.*