THE TRUST COMPANY *of* TENNESSEE

Miranda Carr, CFA®
Chief Investment Officer

As you've noticed with our marketing and communication, we try to balance reporting the news and offering comfort/advice. Over the past few weeks as fears around coronavirus have risen, we've seen elevated volatility return to global equity markets. The downward move has since pushed us into a bear market (defined as a decline of 20% or more). Likewise, we've seen interest rates plummet to the lowest in recorded history with the 10-year Treasury yielding below 1% over the past week.

Market volatility is likely to remain elevated given the still unfolding coronavirus situation, as investors grapple with the economic consequences. The situation is changing rapidly with the WHO declaring a pandemic. While the natural inclination may be to do something in times of heightened uncertainty, we continue to advocate that clients maintain a longer-term focus and adhere to the diversified target allocation we have in place (i.e., we are not recommending portfolio changes at this time). Our experience suggests that investors that make dramatic portfolio changes during events like this often regret them in hindsight.

With a constant barrage of updates coming from all media outlets it is easy to understand how anxiety could be rising. With that in mind, I thought some additional perspective could be helpful:

- Pandemics are rare, but market declines are not. Since 1980, the S&P 500 Index has had an average intra-year decline of nearly 14% (and yet, the index has posted positive returns in 30 of those 40 years).
- As noted above, this type of pullback is common. In fact, we experienced two downward moves of 10% or greater in 2018. Similar to the market gyrations we saw in 2018, this year's market pressure comes after a calendar year with strong performance and relatively low volatility.
- The Dow Jones Industrial Average and S&P 500 are now back to levels we last saw about a year ago, in February 2019. Let's not forget how strong global markets were in 2019 and the beginning of this year.
- Our portfolios reflect our long-term market assumptions. Over the last few years, we have been forecasting lower returns and higher volatility, and we have positioned our investment models with these assumptions in mind. We certainly did not know when this would play out, but within the historical context, we believed that we would see volatility revert to higher levels than we had experienced in 2017 and 2019.

We recognize that volatility such as we have recently experienced can be frustrating or unnerving for clients. Should you have any questions or concerns regarding the portfolio (or markets in general), please reach out by phone or email, as we always want to address any such concerns in a timely fashion.

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