Coronavirus and investors

3 Fidelity pros stress the importance of long term financial planning and diversification.

**FIDELITY VIEWPOINTS**  – 03/02/2020 - 5 MIN READ

# Key takeaways

- The economy remains in the late part of the economic cycle, but corporate earnings growth is slowing and may not bottom until at least the second or third quarter of 2020.

- Pandemics tend to curtail growth in the short term. Ultimately, the economy and the stock market have bounced back, though how fast is unknowable at this point.

- If you have a diversified portfolio of stocks and bonds, the bond portion has risen, cushioning stock losses and underlining the power of asset allocation and diversification.

Coronavirus fears have rattled investors and sent stocks plummeting from historic highs. What’s ahead for the economy and the markets? Sharing their insights are 3 Fidelity investment professionals:

Chris Sheldon, Chief Investment Officer
Jurrien Timmer, Director of Global Macro

Lars Schuster, Director, Institutional Portfolio Manager

Sheldon: How can investors think about how long this volatility may last?

**Timmer:** I've always believed that the market discounts the known future, but the future is not always known. Right now, the market is grappling with the price discovery process of not knowing exactly what the repercussions are going to be to the world economy. Further it is unclear what the policy response will be from the Federal Reserve or even on the US government’s fiscal response.

At the beginning of 2019, the market rallied pretty strongly in anticipation of an earnings and a global economic recovery in 2020. That was based on the assumption that earnings growth would bottom out in the fourth quarter of last year and then rebound in 2020. Clearly, that is not going to happen now that the virus has spread globally. Several large companies have recently preannounced lower earnings estimates for this year. It’s possible that earnings might not bottom out until at least the 2nd or 3rd quarter of this year, possibly at lower levels than previously expected.

Sheldon: After this rapid correction (a stock market drop of 10% or more), what are the signs that things may turn around?

**Timmer:** Obviously, there are a lot of different variables—it depends on to what degree we will see an outbreak in the US. Where will it hit? How will the government respond?

To date, companies have announced travel bans on their employees. Some will make employees self-quarantine and work from home. I don’t feel the economic impact from that move is enough to produce what I would call a technical recession (generally defined by a fall in Gross Domestic Product in 2 consecutive quarters). There may be 1 to 2 quarters
of slightly negative growth, but this remains completely unknowable at this point.

Clearly, earnings growth will probably be negative in the first couple of quarters because it was only barely positive to begin with and we know that companies are guiding lower on the earnings side.

Sheldon: Are we headed toward a recession or is this just a short-term decline?

Timmer: When we hear the word "recession," a lot of people think back to the financial turbulence of 2008, but that was not a typical recession. That was a financial crisis. It was a perfect storm.

So, if you start seeing the word recession appear in headlines, remember that short-term periods of negative growth don't necessarily become huge issues for the market. The markets will look past the decline in earnings, which is likely coming. Historically, market gains made during economic expansions have far outpaced losses that occurred during recessions. That's why it's so important for investors to focus on their long-term goals and plans, not the short-term gyrations of the stock market.

Schuster: The overall financial system today is much healthier than it was in 2008-2009 because there have been better capital cushions for banks coupled with US households that are not currently over leveraged.

It's important for investors to remember that these kinds of market events do not always lead to something more significant. It can just be a natural market reaction with the market trying to reprice in potential near-term earnings.

Remember, it wasn't that long ago, in Q4 2018, that the market was falling nearly 20%. I'm not suggesting that that's going to be a repeat but we do see declines and they can be very scary—especially if there's not a lot of liquidity to mop up the selling. But if the long-term fundamentals are sound and the financial system is healthy, the markets will move past this and will price in a better future.

If you are an investor who has a diversified portfolio with some growth assets like stocks along with some less volatile assets like bonds, the bond side of the equation has really helped out this week.
Sheldon: How have financial markets performed in prior virus-related shocks?

**Timmer:** If we look at a year after an outbreak like SARS or MERS, near pandemics or epidemics are like natural disasters. They curtail growth in the short term. But the market will look through this, even if growth turns negative over the next couple of quarters.

The market needs to be priced right for that to happen and that's what this reset is about. Whether the low is today or a week from now—or whether we are down 15% or 20%, these are unknowable things. Ultimately the market will start focusing on the flip side of this.

It's moments like these that are good reminders to make sure that you've got the right mix of stocks, bonds, and cash for you and to stay invested. These events tend to be temporary shocks, whether they're 2 weeks, maybe they're 2 months. Of course, we're hopeful that they're shorter, but eventually things do come back. History has shown that patience is generally rewarded.

Sheldon: What kind of conversations should investors be having with financial professionals?

**Schuster:** Financial professionals should be working with clients to see that their investment plans are aligned with their goals, time horizons and personal financial situations. Remember, it's extremely difficult to try to time the markets. We have never found anybody, including ourselves, who could do that with great consistency and repeatability.

When you're investing toward a long-term financial goal, which could be 7 years for some and 20 or 30 or more for others, there's really no reason to depart from a financial or an investment plan, just because markets fall 10%–15%. You may have questions and we're here to help. Consider scheduling an appointment with a financial professional if:

- You haven't asked how your accounts may weather changing market conditions through scenario planning
- You're worried that market volatility will make it harder to reach your financial goals
You're looking for opportunities to potentially take advantage of uncertain markets

It's been more than a year since your last financial checkup

You've had a big change in your employment, health, or family

You're considering having more of your assets professionally managed

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<td>Chris Sheldon is the chief investment officer for Fidelity Personal and Workplace Advisors LLC (FPWA), the registered investment advisor for Fidelity Wealth Services. In this role, Chris oversees all investment activities of FPWA including investment manager oversight. Chris also heads the Financial Solutions team, a team of professionals responsible for Fidelity’s financial planning and advice methodology.</td>
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