Coronavirus and the power of mindful investing
4 Fidelity pros see slower growth and urge a focus on long-term planning.

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Key takeaways

✔️ The US economy is likely to experience an economic slowdown.

✔️ How long and deep the US slowdown will be depends on when the growth of the coronavirus peaks in the US.

✔️ Pandemics tend to curtail growth in the short term, but historically, the economy and the stock market bounces back.

✔️ When markets are volatile, it's important to remain focused on your long-term financial plan.

Coronavirus fears have rattled investors and sent stocks plummeting from historic highs to bear market lows. But markets eventually recover. The question is when. What's ahead for the economy and investors? Are we headed into recession? And if so, what kind? Is this the end of the bull market or a sharp pullback in a longer ride up?
Here are the highlights of a conversation with 4 Fidelity financial pros:

- Chris Sheldon, Chief Investment Officer
- Jurrien Timmer, Director of Global Macro
- Leanna Devinney CFP®, Assistant Branch Manager
- Lars Schuster, Director, Institutional Portfolio Manager

Sheldon: What impact are the latest developments with the coronavirus and spiking oil prices having on the markets?

Schuster: Recently, volatility has increased in response to news that the coronavirus (COVID-19) reached pandemic status due to further spread in the US and across Europe. Additionally, news that OPEC failed to agree to production cuts prompted Saudi Arabia to launch a price war with Russia. These developments are likely to place additional stress on financial markets in the near term and may also negatively impact corporate earnings growth.

Timmer: The markets remain in a price discovery mode with investors struggling to determine how long this shock to the markets will last, how deep the correction will be, and how long it will take to rebound. We do anticipate volatility will continue for at least several more weeks as the market tries to get a better handle on when coronavirus cases will peak globally and the impact to corporate earnings is better understood.

Sheldon: What are the odds that the US economy will dip into recession?

Timmer: When a lot of people think about a recession, they think of the global financial crisis from 2008–2009. That was a perfect 100-year storm and I don't think we're in any comparable situation to that.

When I describe the current scenario as a technical recession, I'm talking about a quarter or 2 of negative annual growth. Recent growth was only 2%, so a 2% decline is a technical recession.

That's not the same as a recession caused by a traditional high inventory cycle or the financial crisis. I think it's a temporary adjustment as people stay home and basically stop traveling and spending.

During the financial crisis, both the banks and US households were way out over their skis because they held too much debt. This resulted in the housing bubble of 2008–2009. We don't have either of these scenarios right now. That gives me some sense that we will recover out of this when the virus growth rate peaks. Then companies can get back to work and I suspect that the recovery will be a lot swifter than we saw with the financial crisis of 2008.

Sheldon: What indicators are you looking at that might give you signs of the magnitude and timing of a stock market recovery?
Timmer: My sense is that the faster we go into lockdown mode, in terms of social distancing, the more painful the immediate effects will be on the economy. That's because everybody stays home. But the faster we can get to the other side, the better. That's essentially what China did.

The slower we do it, the less the immediate pain will be, but the longer this thing will last because it won't be contained.

One of the things that we're looking at carefully is earning hit rate (the percent who make their earnings expectations) for S&P 500 companies in April. This will be an important milestone for the market to get a handle on how bad—or maybe not that bad—things are.

Schuster: We're also closely watching weekly jobless claims. That's because we've had very strong employment here in the US and a resilient US consumer. And we will be closely following the policy response, both from governments around the globe as well as the monetary policy responses we're seeing globally.

Of course, it's true that the Fed can cut rates or initiate bond-buying programs and it's not going to stop the spread of the virus. If people are in their homes and not working and spending money, a change in the Fed's interest rates is not going to help. But remember, a financial stimulus from the central bank is designed to build a bridge to provide as much liquidity as the system needs. That's so companies and banks can borrow money if they need to.

The Federal Reserve cut rates by half a percent in early March and it's very likely that they will do that again to help provide liquidity to the system.

Sheldon: What would you say to clients who are concerned about the recent volatility?

Devinney: We have been witness to some scary corrections in the past. On average, we've seen 20% declines every 6 to 7 years (see chart). And we've even seen that since 2008 because of events like Brexit, trade wars, Ebola, and now the coronavirus. They all have an element of feeling different or even unprecedented at the time.

For many people today, that can spark some emotions where we act with fear instead of acting with discipline. This is where we can really help—by taking the emotion out of the situation and encouraging investors to keep financial plans on track.
Schuster: As an optimist looking at that chart, I want to point out there's a lot more green than red. We all have this emotion in us, what behavioral scientists call "loss aversion." That's when we feel twice as much pain from loss than the pleasure from the equivalent gain. We tend to react much more significantly to those down markets like we're experiencing now.

Timmer: The news media is making a significant deal about this being the end of the bull market. The fact of the matter is that this is the third 20% decline in the last decade. One was in 2011 and another took place in 2018. We've also had a couple of 10% and 15% declines along the way. And none of them ended the bull run, they just interrupted it.

Sheldon: Should clients consider making changes to their investments?

Devinney: The answer is unique to your own situation but try to keep volatility in perspective. It's a normal part of investing and history shows us the stock market not only recovers from downturns but spends much more time in expansion phases of the market than in contraction. Whether you are a long-term investor or are living off savings in retirement, we encourage you to stay focused on your goals.

For longer-term investors who are several years away from retirement and have worked with Fidelity to develop a financial plan, the best course of action may be to do nothing because the plan is designed to withstand volatility, even sharp pullbacks. For clients who are retired, staying partially or fully invested is often the right decision, especially for those planning to enjoy a healthy and long retirement.

Sheldon: Are a lot of clients asking about moving money to cash now?
Devinney: Our financial professionals have been getting this question a lot. In my 10 years in the financial services industry, I've developed 2 core business beliefs. First, it all starts with a financial plan, and secondly, it's really about being able to stick to that plan.

The discipline is the hard part. That's why so many people will delegate that responsibility to the professionals. I like to show clients what happens if we did go to cash (see chart below). Selling out by going to cash is the easy part. What's hard is getting back into the market at the right time. It's extremely difficult to do. So often we see some of the best days happen after the worst days. What this shows is the limit to growth potential that results from missing out on the best days.

Past performance is not a guarantee of future results. The hypothetical example assumes an investment that tracks the returns of the S&P 500® Index and includes dividend reinvestment but does not reflect the impact of taxes, which would lower these figures. “Best days” were determined by ranking the one-day total returns for the S&P 500 Index within this time period and ranking them from highest to lowest. There is volatility in the market, and a sale at any point in time could result in a gain or loss. Your own investment experience will differ, including the possibility of losing money. Source: Bloomberg, as of 12/31/2018.

Sheldon: Can you explain how Fidelity investment professionals work with clients to connect their risk tolerance to their overall financial planning?

Devinney: It all starts with the goals of the client. A lot of our clients like to see how different scenarios could potentially play out. For example, clients ask:

- If I want to be more conservative, what's the impact on the longevity on my financial plan?
- Do I have a risk of outliving my assets?
- Should I invest in more growth-oriented options to help keep up with inflation?
These are typical scenarios that we run through based on investing preferences and styles. Sometimes taking a more defensive approach can help smooth out the ride in times like this. Some of this volatility allows us to become a little bit wiser investors too. We can become more resilient if we have the right plan. After all, market volatility is normal and we're likely to see this again.

Lastly, I would recommend that you consider scheduling an appointment with your financial investment professional if:

- It's been more than a year since your last financial checkup.
- 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.
- You've had a big change in your employment, health, or family.
- You're considering having more of your assets professionally managed.

**Chris Sheldon, Chief Investment Officer, Fidelity Investments**

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.

**Jurrien Timmer, Director of Global Macro, Fidelity Investments**

Jurrien Timmer is the director of Global Macro at Fidelity Investments. In this role, he is part of Fidelity’s Global Asset Allocation group, where he specializes in asset allocation and global macro strategy. Additionally, he is responsible for analyzing market trends and synthesizing investment perspectives across Asset Management to generate market strategy insights for the media, as well as for Fidelity’s clients.

**Leanna Devinney, CFP®, Assistant Branch Manager**

Leanna Devinney is responsible for leading one of Fidelity's Investor Centers. In this role, she offers our clients financial and investment guidance, including 1-on-1 retirement planning, wealth management, income strategies, and college planning services, as well as integrated employer benefit solutions.

**Lars Schuster, Director, Institutional Portfolio Manager, Fidelity Investments**

Lars Schuster is an institutional portfolio manager at Strategic Advisers LLC (SAI), a registered investment adviser and a Fidelity Investments company. In this role, he is a member of the investment management team and is responsible for delivering SAI's managed account investment philosophy, process, and ongoing activities to a wide range of investors.
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