Market Volatility: Three Things to Remember in Scary Times

History has shown the value of staying invested during prior episodes of market turmoil.

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Investors in U.S. stocks experienced some tumultuous times in the past four decades:

- **BLACK MONDAY** *stock market drop in 1987*
- **2 WARS** *in Iraq*
- The bursting of the tech-stock **BUBBLE** in 2000
- The September 11, 2001 **TERRORIST ATTACKS**
- The 2008–09 **GLOBAL financial crisis**
- **The 2010** *"flash crash"*
- The European debt crisis that began in **2011**
- The U.S. debt-rating **DOWNGRADE** in 2011
- The 2016 **BREXIT VOTE** and its aftermath
- Various **spikes** and **collapses** in the price of crude oil
- The **U.S.-CHINA TRADE WAR** that began in 2018
- ***Other disease outbreaks*** (including SARS in 2002-03 and avian influenza in 1997)

From 1980–2019, the S&P 500 index posted an **average annual return of 11.8%**

Source: Bloomberg and Lord Abbett.

In Brief

- Investors have experienced renewed market volatility following reports of the spread of the Covid-19 coronavirus to a number of countries.
- But equity market volatility has been a fairly common occurrence over the years. Meanwhile, the U.S. stock market (as represented by the S&P 500® Index) has weathered a number of negative events in the past four decades and posted double-digit annual returns.
- We would also point out that previous episodes of panic-driven selling of equities would have caused investors to miss out on the market's strongest days, lessening returns over the longer term.

Market

Global financial markets have experienced volatility in the past several days given the uncertainty of the impact of the global spread of the Covid-19 coronavirus. (Lord Abbett director of strategic asset allocation Giulio Martini has offered commentary about how the U.S. and other global economies had been strengthening ahead of the outbreak, along with an update on the economic and monetary policy implications for China and other nations.) We all know that markets do not like uncertainty. But while we don't know when, or how, the situation might change for the better, we do know some important things about how the market has responded to prior episodes of volatility. We'll share three of them here.

1. Market volatility is nothing new

Amid the scary headlines emanating from news outlets, it is important to remember that market volatility is normal. In fact, pullbacks of 10% are normal, and typically happen every year or two.

Take a look at Chart 1 on the next page. Market data dating back to 1980 show there is typically a pullback each year (on average about a 13% drawdown). But most years the market has ended up positive, with an average return of 13%.

2. The market has been resilient following prior crises

While the coronavirus outbreak is indeed concerning, with the human and economic toll difficult to predict, we think it's worth noting that the market has weathered a number of other negative events in the past several decades. Just look at the (partial) list of market shocks since 1980 on Page 1.

3. It's not "timing the market," it's time in the market

Periods of volatility can be alarming for investors, some of whom might flee the markets in an attempt to preserve capital, and then later try to time a reentry at the most opportune moment to rebuild wealth. Such a strategy is called "market timing." For it to be successful, it would require an ability not only to forecast the future correctly but also to do so consistently over time—because, presumably, an investor would want to time future exits and entries as well.

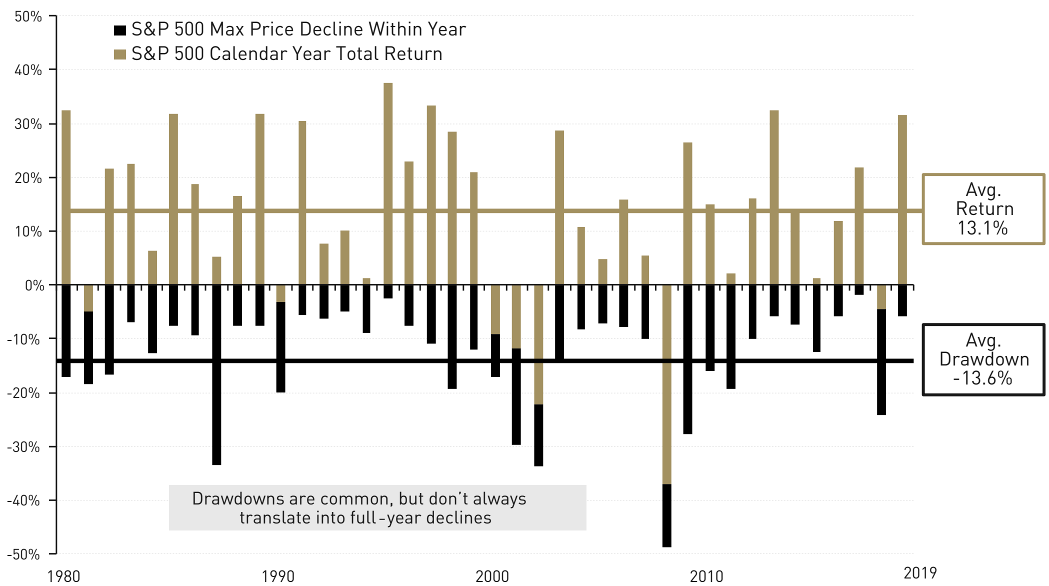
Absent these abilities, we believe there's a more prudent approach.

Why? Investors who try to time the market around volatility risk missing out on the long-term returns of the market. Chart 2 on the next page illustrates the growth of $10,000 in the S&P 500 for investors who missed the 10, 20, and 30 best days of market performance in the past 25 years.

Volatility

Chart 1. Does a Significant Drawdown Automatically Mean Negative Returns for a Given Year? No

S&P 500 annual total returns versus maximum total decline, as of December 31, 2019

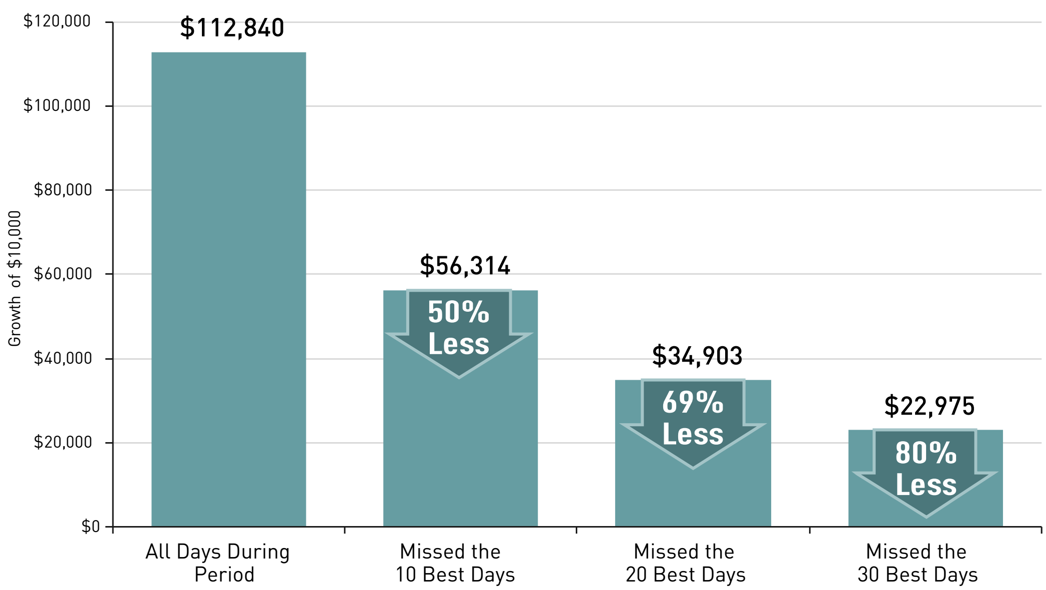


Source: Morningstar.

Note: The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. **Past performance is not a reliable indicator or guarantee of future results**.

Chart 2. This Is What Happens to Your Portfolio When You Miss the Market's Best Days

S&P 500 annualized returns and growth of $10,000 for the period January 1, 1994–December 31, 2019



Source: Standard & Poor's and Lord Abbett. Returns are measured based on the S&P 500® Index. The "best" days to be invested are defined as those on which the S&P 500 Index delivered its highest returns for the given periods based on historical data. Annualized return and total return assumes the reinvestment of all dividends and/or capital gains. P**ast performance is not a reliable indicator or a guarantee of future results**.

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Some Final Thoughts

Here are a few other concepts we think investors should keep in mind during periods of market tumult:

Stay diversified: While we have emphasized equities here, we believe that investors should make a habit of checking with their financial advisors to make sure their portfolios are properly diversified (for example, finding a strategic balance among stocks, bonds, credit, and short-term/liquid assets).

Stay focused: Volatility can be difficult to live through—no one knows how long it may persist. But such volatility often can create opportunity. As of this writing (February 27) U.S. stocks were down 10% from recent highs while U.S. high yield credit spreads were wider by about 100 basis points (bps) from their lows reached in mid-January. As we have noted many times, such short-term market dislocations may create attractive entry points in key asset classes, and allow for active managers potentially to take advantage of opportunities.

Stay calm: News headlines may be alarming, but long-term investors have weathered scary times before. Rather than reacting to short-term market moves, it may be more important to make sure your asset allocation is appropriate for your time horizon and risk tolerance.

As always, *Market View* will keep an eye on the current situation and will offer updates as needed. In the meantime, financial advisors can hear the latest views of Lord Abbett experts by registering for our March 4 webinar, "Volatility: Challenges, Opportunities, and Helping Clients Stay Focused."

A Note about Risk: The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. While growth stocks are subject to the daily ups and downs of the stock market, their long-term potential as well as their volatility can be substantial. Value investing involves the risk that the market may not recognize that securities are undervalued, and they may not appreciate as anticipated. Smaller companies tend to be more volatile and less liquid than larger companies. Small cap companies may also have more limited product lines, markets, or financial resources and typically experience a higher risk of failure than large cap companies. The value of an investment in fixed-income securities will change as interest rates fluctuate and in response to market movements. As interest rates fall, the prices of debt securities tend to rise. As rates rise, prices tend to fall.

No investing strategy can overcome all market volatility or guarantee future results.

Forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

This article may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that markets will perform in a similar manner under similar conditions in the future.

Treasuries are debt securities issued by the U.S. government and secured by its full faith and credit. Income from Treasury securities is exempt from state and local taxes.

The **S&P 500® Index** is widely regarded as the standard for measuring large cap U.S. stock market performance and includes a representative sample of leading companies in leading industries.

Indexes are unmanaged, do not reflect deduction of fees and expenses and are not available for direct investment.

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