APPLETON PARTNERS, INC.

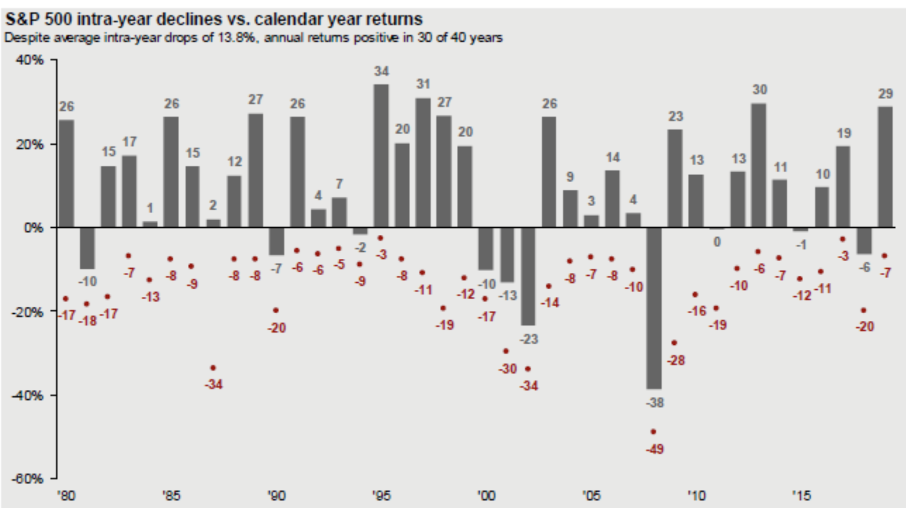
CORONAVIRUS: KEEPING A LONG-TERM OUTLOOK

Fear of the spreading Coronavirus has hit equity markets over the past week as investors grapple with the potential human and economic impacts. Disrupted global supply chains and a sharp expected Q1 slowdown in global trade, travel and overall economic growth have caused investors to flee risk assets in favor of the safety of cash and bonds. That much we know, although the question on most everybody's mind is where we go from here?

How this plays out remains highly uncertain and we do not know the ultimate magnitude or duration of this health crisis. Nonetheless, we can offer historical perspective to help put the current situation in context.

Market corrections (generally considered >10% declines from peak values) appear normal and even healthy in hindsight, just not when you are experiencing one. Stepping back a bit, it bears repeating that volatility is a necessary ingredient for returns and investors have historically been rewarded for taking on risk. In fact, the S&P 500 has experienced an average annual intra-year drawdown of nearly -14% since 1980. Despite that, the Index has produced an average annualized return of +11.8% over that same time period. Furthermore, these strong long-term performance numbers include the effect of three of the worst crashes of modern times: 1987, 2001, and 2008. The most recent 20% correction took place in Q4 2018, only 15 months ago.

In short, the pain of rapid market declines is acute and the underlying worries that drive each downturn differ, yet history tells us they are an entirely normal part of equity investing.



Source: FactSet, Standard & Poor's, JP Morgan Asset Management

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%. *Guide to the Markets* – US Data are as of Dec 31, 2019

Markets can and will fall for a myriad of reasons. The accompanying chart details how the S&P 500 has performed over time periods ranging from 1 month to 10 years following major macro events. As difficult as it may be in the moment, we strongly believe in maintaining a long-term perspective during volatile times.

Individual client circumstances are unique, which is why customized asset allocation is so important, although most of our clients are invested in equity portfolios with an extended, multi-year time horizon. Even those already in retirement often have many years before they expect to draw down their assets, thereby giving markets plenty of time to recover from periodic downturns.

			S&P 500 % gain/loss after last reaction date			
Event	Event reaction dates	% of gain/loss during event	1 month later	1 year later	5 years later	10 years later
Fall of France	5/9/40 – 6/22/40	-18.2	3.1	5.2	15.9	13.2
Attack on Pearl Harbor	12/6/41 – 12/10/41	-6.9	4.5	16.0	18.1	17.1
Outbreak of Korean War	6/23/50 – 7/13/50	-11.1	9.5	42.0	27.6	18.4
Eisenhower heart attack	9/23/55 – 9/26/55	-6.6	0.1	11.8	8.5	11.6
Cuban Missile Crisis	8/23/62 – 10/23/62	-9.9	15.5	41.1	15.8	11.0
Kennedy assassination	11/21/63 – 11/22/63	-2.8	7.0	27.8	12.4	7.0
US attacks Cambodia	4/29/70 – 5/26/70	-15.0	6.4	49.0	9.3	9.3
Nixon resigns	8/9/74 – 8/29/74	-13.4	-6.8	30.6	14.6	14.6
1987 stock market crash	10/2/87 – 10/19/87	-31.5	7.1	27.9	17.0	18.9
Gulf War ultimatum	12/17/90 – 1/16/91	-2.8	17.2	36.6	17.3	18.0
Gorbachev coup	8/16/91 – 8/19/91	-2.3	3.2	14.5	15.2	14.3
Collapse of Long-Term Capital Management	8/28/98 – 9/9/98	-2.0	-2.0	35.8	1.8	3.7
September 11 terrorist attacks	9/10/01 – 9/21/01	-11.6	11.3	-11.1	8.3	3.9
US invades Iraq	3/18/03 – 3/31/03	-2.1	8.2	35.1	11.3	8.5
Collapse of Lehman Brothers	9/5/08 – 11/20/08	-39.1	18.3	48.8	21.5	15.8
US debt downgrade by S&P	8/5/11 – 10/3/11	-8.0	14.9	35.0	17.0	-
2016 Brexit	6/23/16 – 6/27/16	-5.3	8.5	23.5	-	-

Source: Putnam Investments, Wall Street Journal
Historical references do not assume that any prior market behavior will be duplicated.
Past performance does not indicate future results.

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Given that today's circumstances involve a viral outbreak, it may also be useful to look at market performance in the aftermath of past major public health concerns:

Epidemic	Month End	6-month % change of S&P	12-month % change of S&P
HIV/AIDS	June 1981	-0.30	-16.50
Pneumonic plague	Sept. 1994	8.20	26.30
SARS	Apr. 2003	14.59	20.76
Avian Flu	June 2006	11.66	18.36
Dengue Fever	Sept. 2006	6.36	14.29
Swine Flu	Apr. 2009	18.72	35.96
Cholera	Nov. 2010	13.95	5.63
MERS	May 2013	10.74	17.96
Ebola	Mar. 2014	5.34	10.44
Measles/Rubeola	Dec. 2014	0.20	-0.73
Zika	Jan. 2016	12.03	17.45
Measles/Rubeola	June 2019	9.82	-

Source: Dow Jones Market Data

Many pundits have stated, "it's different this time", and that is certainly true; there is no exact facsimile for the Coronavirus situation given China's vastly expanded role in the global economy and the global nature of supply chains. However, in each of these cases, and those dating further back, the global economy and most individual corporations eventually adjusted without significant impact to long-term growth.

We are monitoring the current outbreak as it develops and are seeking the best information we can find. It is difficult to make good investment decisions during times rife with fear, which is why the long-term perspective referenced above is so important. Depending on risk tolerance, we've long recommended a balanced approach to portfolio construction, as bonds have historically provided ballast against stock volatility. We are seeing this play out again today as bond prices rally and yields plunge towards record lows. Our focus remains on fundamental economic and corporate earnings trends and we will rebalance client portfolios as appropriate. Given our view that this is a period of downside volatility in a longer-term uptrend, we feel clients are best served maintaining their long-term, risk-appropriate target allocations.

As always, we welcome the opportunity to speak with you. If you would like to talk about your portfolio, or just have general questions, feel free to reach out to your portfolio manager. That's why we're here.

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