

**Q2 2020 – Market Overview Newsletter**

**Economic Update**

Coming off one of the strongest economic environments, we currently face a rapidly evolving health care crisis that continues to have a severe impact on the economy and markets. The “temporary shut-down” due to the COVID-19 pandemic is a real threat to our economy. The longer this persists, the longer it will likely take our economy to recover. However, the passage of the CARES Act (Coronavirus Aid, Relief, and Economic Security Act) by the U.S. government along with the actions of the Federal Reserve could prevent a prolonged downturn and make this more of a temporary economic “stall” instead. The recovery may take some time, months or perhaps quarters, but we expect the economy and stocks will likely surge as a result of extraordinary government support. Although this economic downturn will be severe and historic, we anticipate it will be relatively short lived.

Still, after an eleven-year bull run, we are now experiencing a bear market. The recent U.S. equity market decline and volatility has been unprecedented. Market returns that we generally see over three to six-month periods have become one day swings. Investors have vivid memories of 2008 and may correlate that environment to the probable recession we are currently experiencing. The current bear market, however, is much different from 2008! Twelve years ago, our economy was on the brink of collapse driven by significant structural issues. Today we are experiencing an event-driven recession with a strong economic backbone, which is another reason we anticipate a faster recovery.

Stock markets react quickly, sometimes overreacting, and the best and worst days tend to be within two weeks of each other. To provide historical

perspective, the table to the right illustrates just how much the S&P 500 recovered 12 months following each of the previous seven market declines.

Dates of S&P's biggest declines	Black Monday 8/25/87- 12/4/87	Gulf War 7/16/90- 10/11/90	Asla Monetary Crisis 7/17/98- 8/31/98	Tech Bubble 3/27/00- 10/9/02	Financial Crisis 10/9/07- 3/9/09	US Credit Downgrade 3/10/11- 10/3/11	Trade War 10/3/18- 12/24/18
<b>U.S. stocks</b>	<b>-33.5%</b>	<b>-19.9%</b>	<b>-19.3%</b>	<b>-49.0%</b>	<b>-56.8%</b>	<b>-19.0%</b>	<b>-19.6%</b>
<b>Next 12 months</b>	<b>+21.4%</b>	<b>+29.1%</b>	<b>+37.9%</b>	<b>+33.7%</b>	<b>+68.6%</b>	<b>+32.0%</b>	<b>+37.1%</b>

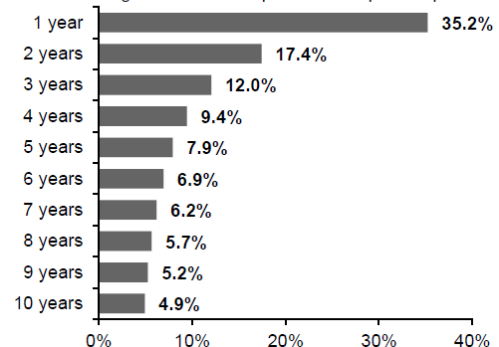
*Source: BlackRock, Stay the Course Amid Market Volatility. Morningstar as of 2/28/20. Returns are principal only not including dividends. U.S. stocks represented by the S&P 500 Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can't invest directly in an index.*

We don't know how long it will take for the markets

to recover, but regardless of the length of time, the gains achieved from current levels will likely be substantial. This chart indicates the strength of potential returns over various lengths of time by showing the average annual return required to reach the February 19<sup>th</sup> S&P 500 peak. For example, if it takes three years to achieve previous peak levels from the quarter-end, this will equate to 12% annualized returns.

We may experience more downward movement, but timing the markets is nearly impossible. We encourage patience while maintaining a long-term focus. If you have any questions or would like to discuss your investments, we welcome your phone call any time. Thank you for your continued confidence!

**Returns will likely be strong when markets rebound**  
S&P 500 average annual return required to reach previous peak



*Source: Standard & Poor's, Factset, J.P. Morgan Asset Management. Assumes 2% dividend yield throughout. Data are as of March 27, 2020.*

**With the importance of the CARES Act and the impact it will have on most Americans, enclosed is a summary outlining many of its important details.**

-LS

---

For more market details from the last quarter, see the IM&R Market Review in the commentaries page on our website at [www.langdonshaw.com/commentaries](http://www.langdonshaw.com/commentaries)

---

**DISCLOSURE INFORMATION** - The views and opinions expressed herein are those of the author(s) and may or may not represent the views of the Lincoln Investment Companies. The material presented is provided for informational purposes only, from sources deemed to be reliable, however, there can be no guarantee as to the accuracy of the information.

Nothing contained herein should be construed as a recommendation to buy or sell any securities. This material may include forward-looking statements that are subject to certain risks and uncertainties. Actual results, performance, or achievements may differ materially from those expressed or implied. All investments are subject to risk, including the risk of principal loss. Diversification does not guarantee a profit or protect against a loss. Investors cannot invest directly in an index. No person or system can predict the market. Past performance is no guarantee of future performance.

A recession is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP).

The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy.

International investing involves special risks, including, but not limited to, the possibility of substantial volatility due to currency fluctuation and political uncertainties. The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy.

Leading Economic Index (LEI) is an index published by The Conference Board and is made up of 10 leading economic indicators that precede economic events. Small cap stocks may be subject to a higher degree of risk than larger, more established companies' securities, including higher risk of failure and higher volatility. The illiquidity of the small-cap market may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost. Large Cap refers to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization." Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Chart definitions: S&P 500 Index: an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. The securities represented in this index may experience loss of invested principal and are subject to investment risk.