

# The Storm Before the Calm

## Market turmoil is nothing new, and is always followed by a robust recovery

In just over a decade, we've seen four instances of severe market turmoil:

### 1. The Great Financial Crisis (2008–2009)

A global credit and liquidity crisis triggered in part by the collapse of U.S. mortgage-backed securities.

### 2. European sovereign debt crisis (2011)

Widespread concerns that Greece, Italy, Portugal, Spain and Ireland could all default on their government bonds.

### 3. Oil crash of 2015–2016

An unexpected, severe drop in oil prices.

### 4. Q4 2018 interest rate panic

A series of U.S. Federal Reserve rate hikes that the market viewed as unjustified by economic conditions.

While each had its own set of unique causes and consequences, they all share one thing in common: they were followed by dramatic rebounds.

There is no reason to believe the current crisis will be any different. Naturally, it's difficult to think this way in the midst of extreme downward volatility – the seemingly endless stream of bad news and pessimism is difficult to tune out. But we will get through this, and when we do, investors who held firm to their long-term plans will likely be rewarded, while those who rushed for the exits in fear – thereby locking in losses in a declining market – may wish they had hung on just a little longer to see things turn around.

## The data tells the tale

The data tables below show what happened across a variety of asset classes after the last four market crises. There is some variance depending on asset class and the nature of the crisis, but again, the story is uniform in the only important respect: the markets recovered what they lost and grew nicely from there.

### The Great Financial Crisis (2008–2009)

| Asset Class                | Returns During Crisis* | CUMULATIVE RETURNS |       |        |        |
|----------------------------|------------------------|--------------------|-------|--------|--------|
|                            |                        | 1 yr.              | 3 yr. | 5 yr.  | 10 yr. |
| US Equities                | -50.95                 | 53.62              | 97.94 | 181.57 | 367.39 |
| Canadian Equities          | -42.11                 | 47.60              | 69.25 | 102.38 | 164.29 |
| Emerging Market Equities   | -51.67                 | 64.74              | 94.07 | 105.58 | 196.62 |
| EAFE Equities              | -50.66                 | 40.46              | 47.55 | 102.49 | 172.03 |
| Canadian Bonds             | 8.36                   | 7.81               | 23.87 | 30.42  | 53.06  |
| Global Bonds               | 0.69                   | 13.62              | 28.10 | 31.27  | 36.44  |
| US Bonds                   | 6.08                   | 9.32               | 24.31 | 28.39  | 43.97  |
| High Yield Bonds           | -26.49                 | 57.54              | 96.08 | 137.69 | 196.79 |
| Emerging Market Bonds      | -11.00                 | 30.93              | 63.76 | 76.88  | 123.23 |
| Floating Rate/Senior Loans | -25.06                 | 39.40              | 57.03 | 79.19  | 117.26 |

Source: Morningstar Direct, as at February 29, 2020. Cumulative returns using monthly return data. Assumes a recovery that begins on March 1, 2009. \*November 1, 2007 to February 28, 2009. See disclaimer for indices used to represent asset classes.

## European sovereign debt crisis (2011)

| Asset Class                | Returns During Crisis* | CUMULATIVE RETURNS |       |        |
|----------------------------|------------------------|--------------------|-------|--------|
|                            |                        | 1 yr.              | 3 yr. | 5 yr.  |
| US Equities                | -16.26                 | 30.20              | 86.05 | 113.44 |
| Canadian Equities          | -15.69                 | 9.17               | 40.77 | 47.30  |
| Emerging Market Equities   | -17.79                 | 16.83              | 34.78 | 42.42  |
| EAFE Equities              | -17.77                 | 14.12              | 63.48 | 74.03  |
| Canadian Bonds             | 6.81                   | 5.45               | 10.70 | 23.91  |
| Global Bonds               | 0.97                   | 5.07               | 3.52  | 8.98   |
| US Bonds                   | 4.87                   | 5.16               | 7.48  | 16.39  |
| High Yield Bonds           | -6.80                  | 18.94              | 36.59 | 48.60  |
| Emerging Market Bonds      | 0.74                   | 20.59              | 24.90 | 43.05  |
| Floating Rate/Senior Loans | -4.02                  | 10.73              | 22.23 | 30.36  |

Source: Morningstar Direct, as at February 29, 2020; monthly return data. Assumes a recovery that begins on October 1, 2011. \*May 1, 2011 to September 30, 2011. See disclaimer for indices used to represent asset classes.

## Oil crash of 2015–2016

| Asset Class                | Returns During Crisis* | CUMULATIVE RETURNS |       |
|----------------------------|------------------------|--------------------|-------|
|                            |                        | 1 yr.              | 3 yr. |
| US Equities                | -6.90                  | 24.98              | 53.20 |
| Canadian Equities          | -9.50                  | 23.24              | 35.95 |
| Emerging Market Equities   | -11.39                 | 22.74              | 48.75 |
| EAFE Equities              | -14.97                 | 19.18              | 31.73 |
| Canadian Bonds             | 0.29                   | 1.89               | 6.65  |
| Global Bonds               | 2.80                   | 0.59               | 6.04  |
| US Bonds                   | 2.05                   | 1.42               | 5.16  |
| High Yield Bonds           | -7.44                  | 22.30              | 32.76 |
| Emerging Market Bonds      | 0.87                   | 12.06              | 18.57 |
| Floating Rate/Senior Loans | -4.49                  | 12.55              | 21.93 |

Source: Morningstar Direct, as at February 29, 2020; monthly return data. Assumes a recovery that begins on March 1, 2016. \*August 1, 2015 to February 29, 2016. See disclaimer for indices used to represent asset classes.

## Q4 2018 interest rate panic

| Asset Class                | Returns During Crisis* | 1 yr. |
|----------------------------|------------------------|-------|
| Global Equities            | -12.24                 | 27.30 |
| US Equities                | -13.03                 | 31.49 |
| Canadian Equities          | -10.91                 | 22.88 |
| Emerging Market Equities   | -8.40                  | 18.52 |
| EAFE Equities              | -10.86                 | 22.31 |
| Canadian Bonds             | 0.78                   | 6.87  |
| Global Bonds               | 0.33                   | 6.84  |
| US Bonds                   | 0.98                   | 8.72  |
| High Yield Bonds           | -4.11                  | 14.41 |
| Emerging Market Bonds      | 0.56                   | 14.42 |
| Floating Rate/Senior Loans | -2.42                  | 8.17  |

Source: Morningstar Direct, as at February 29, 2020; monthly return data. Assumes a recovery that begins on January 1, 2019. \*September 1, 2018 to December 31, 2018. See disclaimer for indices used to represent asset classes.

**It bears repeating:** the current situation is dire, to be sure, but it's nothing new, and as has happened in every past instance of market turmoil, we believe we will see a recovery and continued growth beyond previous highs.

Always remember that in difficult times like this, your greatest support is the guidance and experience of your financial advisor, and your great asset is your trust in the long-term plan you've built together.

Definition of terms: Cumulative return – The total amount an investment has gained or lost over a specified period of time.

US Equities represented by S&P 500 TR, Canadian Equities represented by S&P/TSX Composite TR, Emerging Market Equities represented by MSCI EM GR LCL, EAFE Equities represented by MSCI EAFE GR LCL, Canadian Bonds represented by FTSE Canada Universe Bond, Global Bonds represented by BBgBarc Global Aggregate TR USD, US Bonds represented by BBgBarc US Agg Bond TR USD, High Yield Bonds represented by ICE BofA US High Yield TR USD, Emerging Market Bonds represented by JPM EMBI Global TR USD, Floating Rate/Senior Loans represented by Credit Suisse Leveraged Loan USD.

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