

Quick Take: Equity markets – uncertainty versus risk

March 20, 2020

Context for what's happened

- Since global equity markets peaked roughly a month ago, the selloff has been brutally swift, with major stock indices falling close to 30% over that period.
- The top chart shows that, in the context of U.S. stocks, the velocity of the current drawdown from the highs is almost unprecedented, exceeded only by that of the '87 Crash and similar to the Crash of '29.

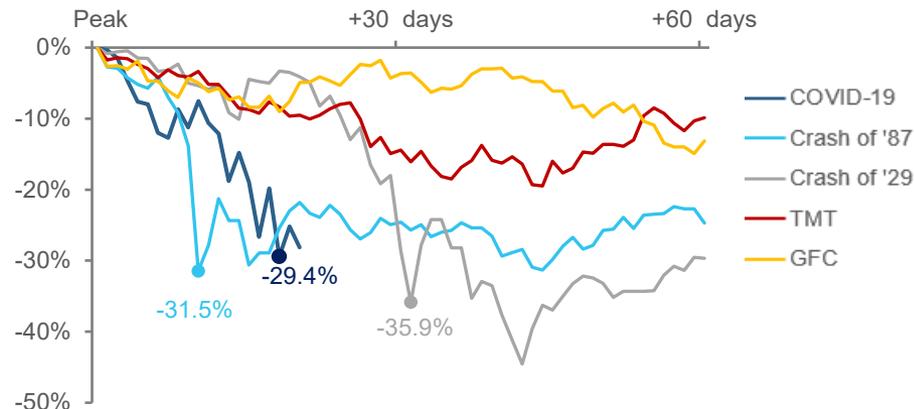
Uncertainty versus risk

- Each crisis is unique, and today's markets have been struggling to absorb waves of information about the spread of the virus, its impact on the global economy, and the efficacy of policy countermeasures.
- The market response reflects profound uncertainty, with little sense of, and few historical reference points for, the range of possible outcomes or their probabilities.

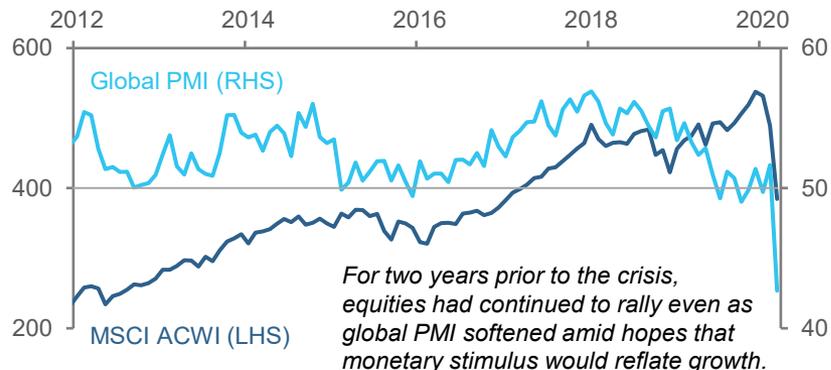
Looking ahead

- The coronavirus triggered a sudden break in market psychology, as a frightening and uncertain reality overwhelmed investors' willingness to cast aside what were already deteriorating fundamentals and their hopes that central banks could continue to defy gravity and rekindle economic growth (bottom chart).
- The current crisis will pose an extreme challenge to the use of monetary stimulus as a response, forcing a shift towards large-scale fiscal action.

Current Drawdown in Historical Perspective (S&P 500)



Equity Returns and Global PMI



Both charts as of 03/18. Top chart based on S&P 500. Bottom chart based on MSCI ACWI. Sources for both charts: Acadian, Bloomberg, MSCI. Copyright MSCI 2020. All Rights Reserved. Unpublished. PROPRIETARY TO MSCI. Acadian Asset Management LLC. S&P 500 Index Source: S&P Copyright (c) 2020, Standard & Poor's Financial Services LLC. All rights reserved. It is not possible to invest directly in any index. Every investment program has the opportunity for losses as well as profits. Past results are not indicative of future results.

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