

# Guide to the Markets

## Five charts for a market downturn

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EU | April 2020

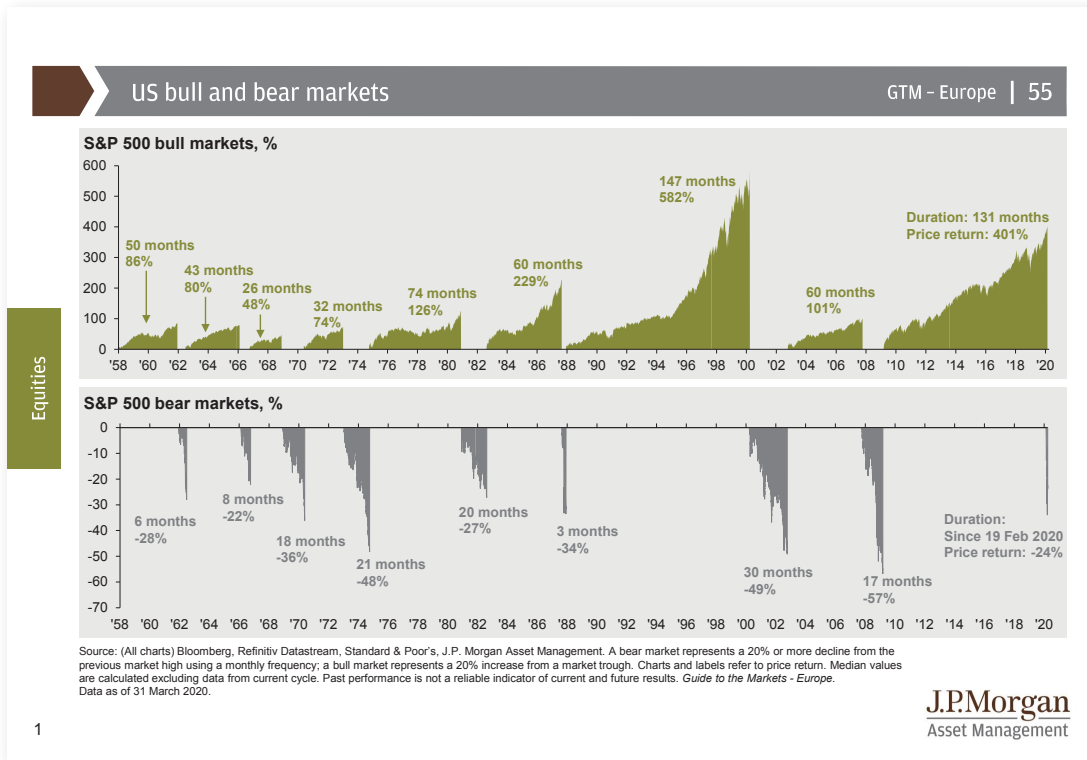


With US stocks falling more than 20% since the February peak, the first bear market since 2009 has rattled investors. Here are five long-term investment considerations to keep in mind:

- 1 The depth and duration of bull and bear markets
- 2 The importance of diversification
- 3 A focus on fixed income
- 4 Market timing can be tough
- 5 The role of alternative assets

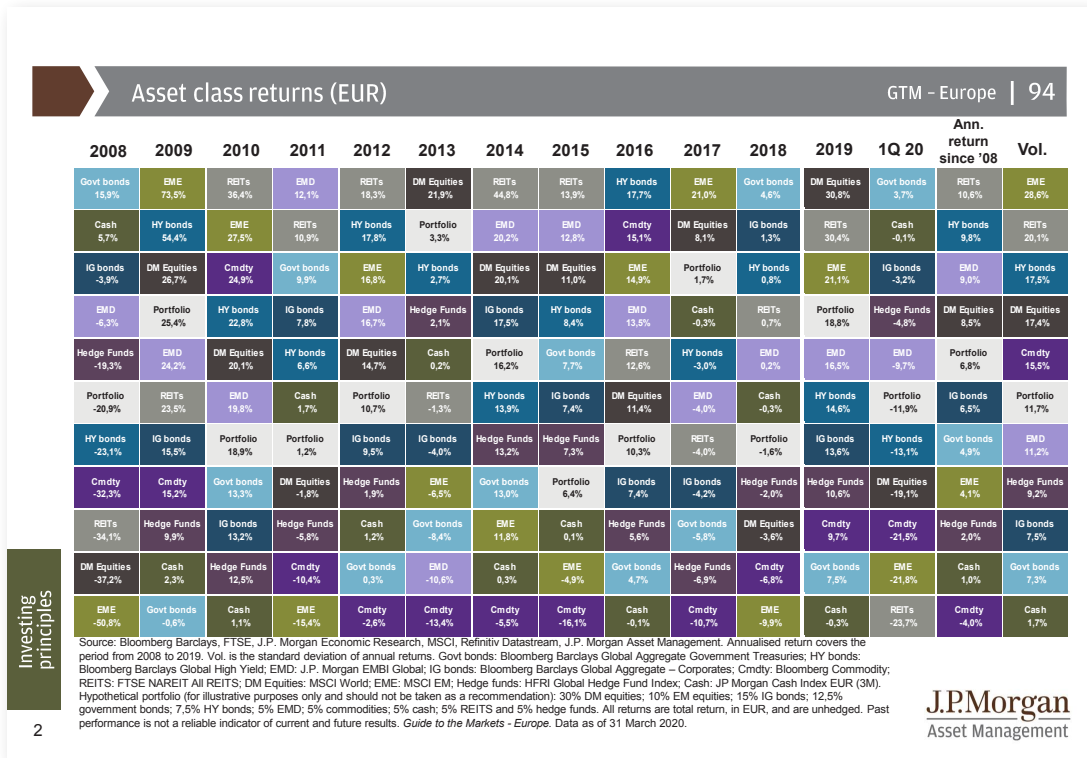
# 1 The depth and duration of bull and bear markets

The COVID-19 outbreak is severely impacting activity across the world, and economic growth forecasts for the first half of 2020 have been cut aggressively. The depth and duration of a contraction in growth is dependent on two key factors: how quickly infection rates peak, and the policy response. Even if growth does rebound later in 2020, the hit to earnings will be significant, and both earnings expectations and valuations may take time to fully reflect the impact of this outbreak. The global economy should recover once the outbreak is contained. In the near-term, new infection numbers and the size and speed of the policy response continue to be the key gauges to focus on.



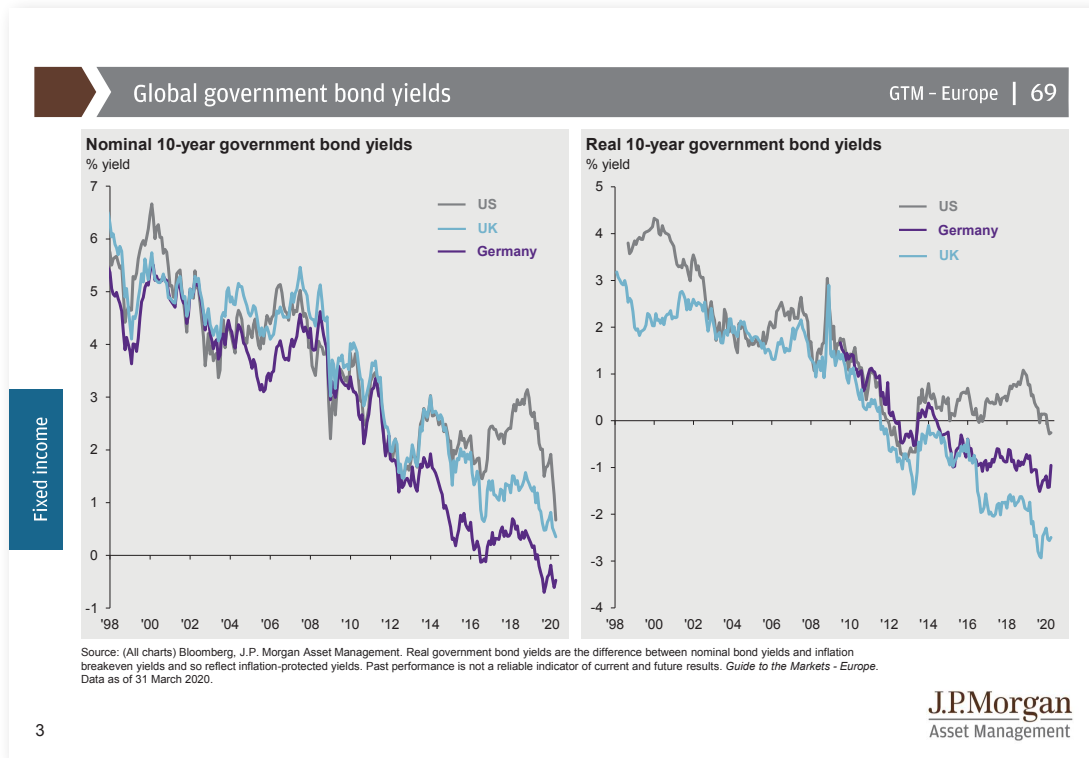
## 2 The importance of diversification

The current market downturn reinforces the importance of diversification. Government bonds have done their job so far in 2020 - to go up in price when equities fall - despite having started the year with yields close to record lows. Holding bonds can help investors to manage portfolio volatility.



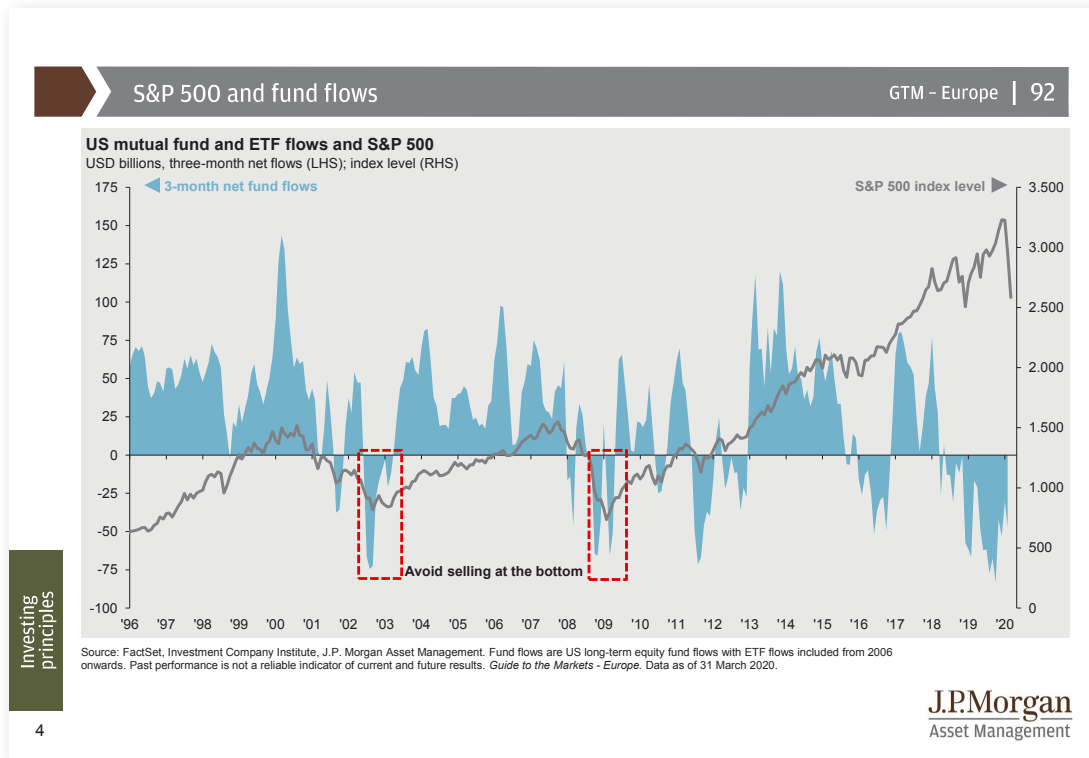
### 3 A focus on fixed income

US Treasuries have outperformed UK and German government bonds year-to-date. With the Federal Reserve having cut interest rates aggressively, the potential for US Treasury yields to fall further has diminished. Fixed income still has an important role to play in adding portfolio ballast, but the attractiveness of longer-dated government bonds over shorter-dated options has reduced given the dramatic rally in long-dated yields this year.



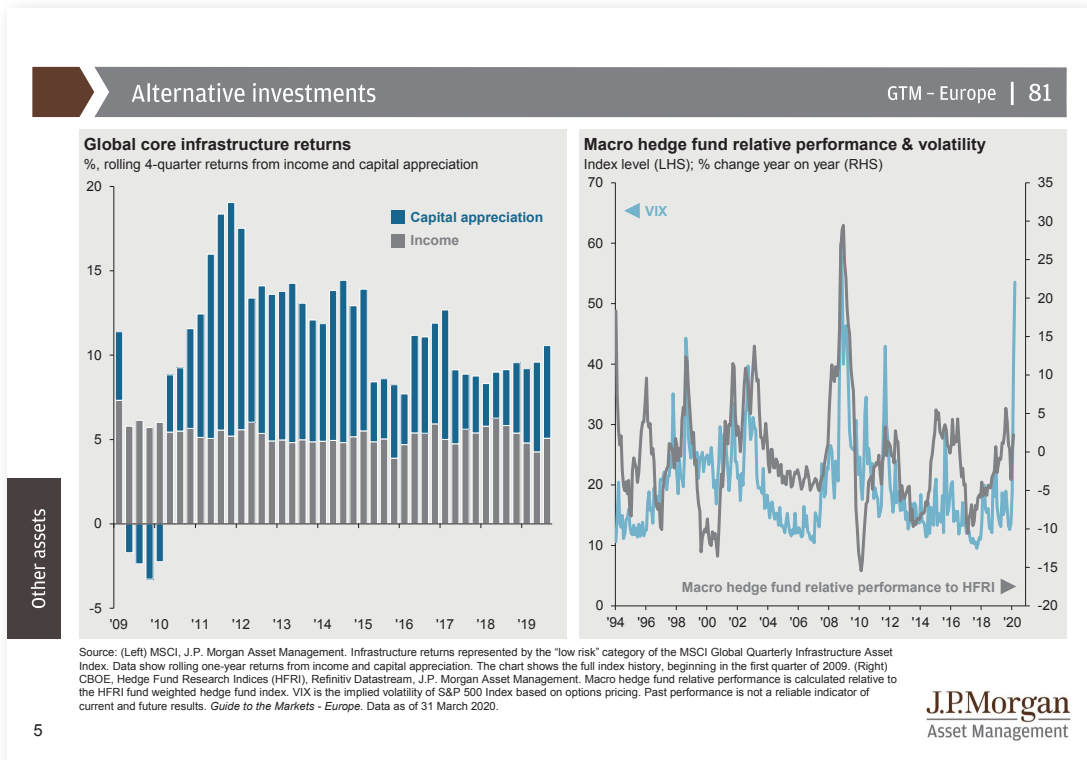
## 4 Market timing can be tough

Timing the stock market is hard. History tells us that investors have often sold out of stocks in the aftermath of sharp market corrections, but this can often be the worst time to sell risky assets.



## 5 The role of alternative assets

The current market sell-off has emphasised the importance of alternative investments. Income-hunting investors will have seen the yields on government bond portfolios shrink dramatically, which makes alternative income sources such as infrastructure more attractive provided that investors have the ability to invest in less-liquid assets. Macro-style hedge funds have also historically proven their worth as diversifiers in periods of elevated stock market volatility.



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