CETERA® INVESTMENT MANAGEMENT

COMMENTARY

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Markets Move in Both Directions

- Equities fell on Monday due to an oil price war and the global spread of COVID-19.
- Turnaround Tuesday saw equities rally on fiscal stimulus hopes.
- We expect more market volatility and recommend diversification and working with your financial professional to stay on track with your financial goals and objectives.

This week, U.S. stocks have seen significant volatility. On Monday, a developing oil price war between Saudi Arabia and Russia and growing anxiety around the global spread of COVID-19 sent oil and stocks plummeting. One day later, equities recovered much of their losses on a combination of a relief rally and growing optimism around a potential stimulus package. While these sharp market fluctuations can be unnerving, we do believe they will characterize U.S. equities for the foreseeable future.

On Monday, the Dow Jones Industrial Average fell 2,000 points for the first time in history, while the S&P 500 had its worst one-day loss in more than ten years. Investors were worried by growing cases of COVID-19 and the decisions by many municipalities to close schools, universities, and even some businesses. With the likely result of a negative impact on the U.S. economy, investors grew more concerned about the likelihood of an impending recession. Adding fuel to these concerns, Saudi Arabia's state-owned oil company decided to cut oil prices by ramping up production, sending U.S. crude oil prices down over 20% to around $30/barrel. Given the importance of the energy industry on the U.S. economy, this news further exacerbated the concerns around a domestic recession.

On Tuesday, U.S. equities reversed this negative bias as signs emerged that the governments worldwide might engage in some type of fiscal stimulus. For example, the Trump administration pitched a payroll tax cut and other policy proposals to Senate Republicans, while Italian Prime Minister Giuseppe Conte vowed to deploy some type of "massive shock therapy" form of economic stimulus that could approach $18 billion. The result drove optimism and, not surprisingly, risk assets such as equities, economically sensitive commodities such as copper and oil, and bond yields all moved higher. Traditional safe-haven assets like gold struggled. Based on Tuesday's market moves, it is clear that investors are demanding more than monetary stimulus. With most already expecting a sharp cut in interest rates by the Fed at its next FOMC meeting

(March 17-18), there is a growing realization that lower rates are not enough to reduce the impact of the virus on the economy. Instead, a fairly coordinated fiscal stimulus package from multiple countries is likely needed.

The sharp selloff and reversal clearly point to two things likely to drive investor sentiment going forward. On the negative side, investors are clearly worried about the impact of COVID-19 on the global economy. As bad news increases, such as the number of deaths or cases rise, investors become concerned and grow defensive. On the positive side, as the number of deaths and cases decline globally or nations develop ways to combat the growing impact on the economy, we expect investors to become more optimistic. Since we cannot predict either of these occurring on a daily basis, it highlights an important and time-tested strategy that investors should follow - a diversified and well-balanced investment portfolio can help mitigate the difficult market days, while at the same time offering upside potential on days like Tuesday.

This is an extremely volatile market and being diversified is very important by not having too much risk exposure to one asset class or security. Focusing on long-term risk and return objectives is important. Your financial professional can help you stay on course and focus on the things you can control in your portfolio.

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A diversified portfolio does not assure a profit or protect against loss in a declining market.

Glossary

The **S&P 500 is an index** of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The **Dow Jones Industrial Average** is a price-weighted average of 30 U.S. blue-chip stocks traded on the New York Stock Exchange and NASDAQ. The index covers all industries except transportation, real estate and utilities.