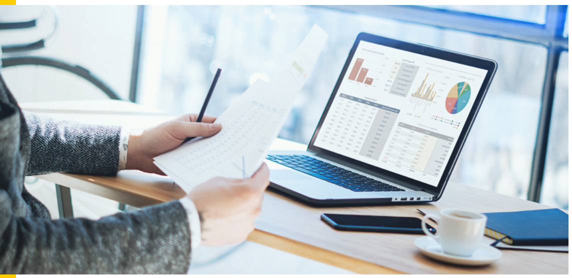


An Upside to This Down Market

Craig Fehr, CFA • Investment Strategist

Five Keys to Navigating Pullbacks Successfully

1. **Avoid the temptation to panic.** This pullback, just like those before it, won't last forever. You'll want to be invested when the rebound takes shape.
2. **Measure your progress against your goals, not the peak value of your portfolio or short-term fluctuations.** If your goals haven't changed, your strategy to achieve them shouldn't either.
3. **Put time on your side.** You're investing for the long term, so use that to your advantage.
4. **Leverage the power of diversification.** A balanced portfolio of 65% stocks and 35% bonds has held up better, dipping roughly half as much as the Dow.*
5. **Lean in to volatility.** History shows the best times to be opportunistic are when it feels toughest to do so.

*Source: Morningstar Direct. Equities represented by the S&P 500 Index; bonds represented by the Barclays Bloomberg US Aggregate index. Edward Jones calculations.

It often feels like the stock market takes the stairs up but the elevator down. The latter rings true currently, with stocks falling more than 20% from the peak, crossing the official threshold of a bear market for the first time in more than a decade. And they did so in record time: U.S. stocks sat at record highs less than one month ago.

As unsettling as this selloff may feel, don't lose sight of that staircase. Even with this decline, the stock market is:

- Still higher than during the pullback in December 2018
- Up 26% (including dividends) over the past five years (an average annual gain of 4%) and 280% over the past 11 years (a 12% annual gain)[1]

The velocity of this selloff and the magnitude of the daily swings are a reflection of the unique risk of this human health crisis and the unprecedented efforts to contain the virus' spread, which raise the uncertainty around the ultimate timeline and impact. Market selloffs are fed by fear and are eventually exhausted when extreme pessimism is priced in and investments become re-anchored to the broader outlook for fundamentals.

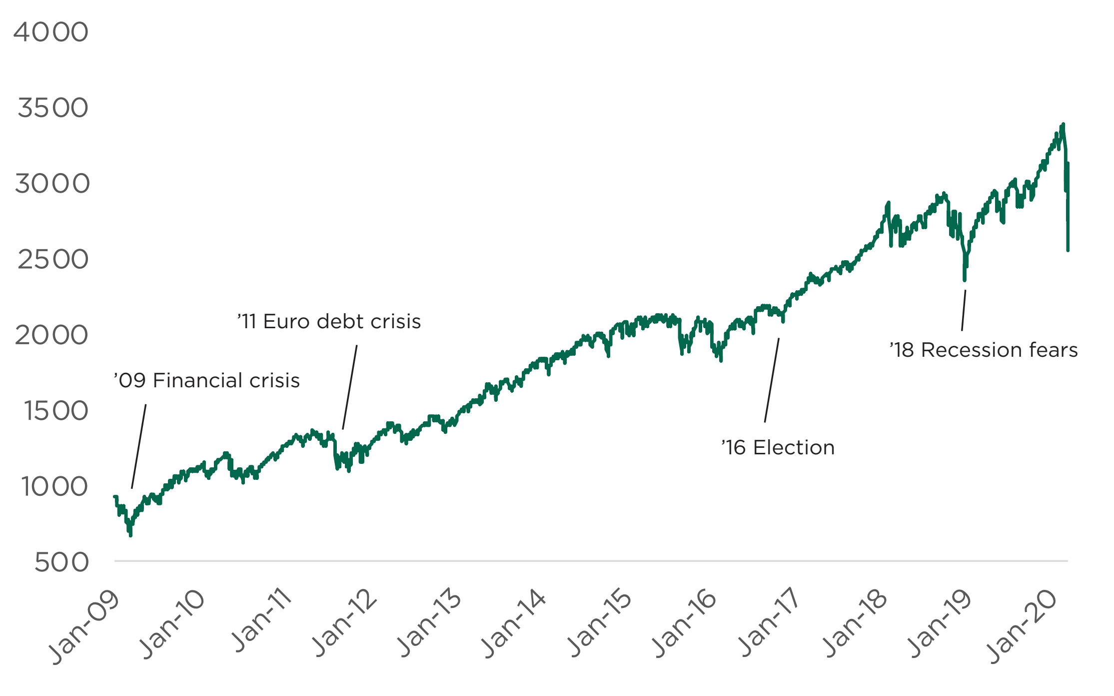
We think investors can take comfort that:

1. There appears to be a high degree of pessimism already in the market at these levels
2. The health of the economy entering this unique situation won't prevent the significant "social distancing" driven slowdown, but will play a key role in fostering its rebound as the virus runs its course
3. Diversified portfolios aren't mirroring the stock market decline (see sidebar)

[1] Bloomberg, S&P 500 index, as of 3/18/2020.

Edward Jones
MAKING SENSE OF INVESTING

The Selloff Has Been Sharp, but Put Performance in Perspective (S&P 500 since 2009)



How Long Will This Last?

Volatility is unlikely to end soon, but we're confident that a rebound will eventually take shape. We think the process for volatility to subside and the market to find its footing will require the following:

- **A peak in the rate of new confirmed cases of coronavirus in the U.S. –** The pace of new cases will need to slow before a sustained rebound can occur. Experiences in China and South Korea suggest an inflection point when new cases peaked.

- **An effective and sizable fiscal policy response –** Washington is evaluating tax relief, support for impacted workers and industries, business loans/funding and other additional measures of support for consumers. This won't fully solve the challenges, however, full-scale, unprecedented fiscal stimulus will, in our view, be needed to help bridge the gap for the economy and market confidence until the impacts of "social distancing" and containment of the health crisis pass.

- **Aggressive monetary policy stimulus –** Rate cuts won't solve a human health crisis. However, the Fed has cut rates to zero, restarted bond-buying stimulus and has implemented funding facilities to support a fully-functioning financial and banking system. This too, won't prevent the virus-induced downturn on its own, but it does mean we'll emerge from the slowdown with incredibly stimulative monetary policy settings, which we think will help supercharge the economic and market rebound.

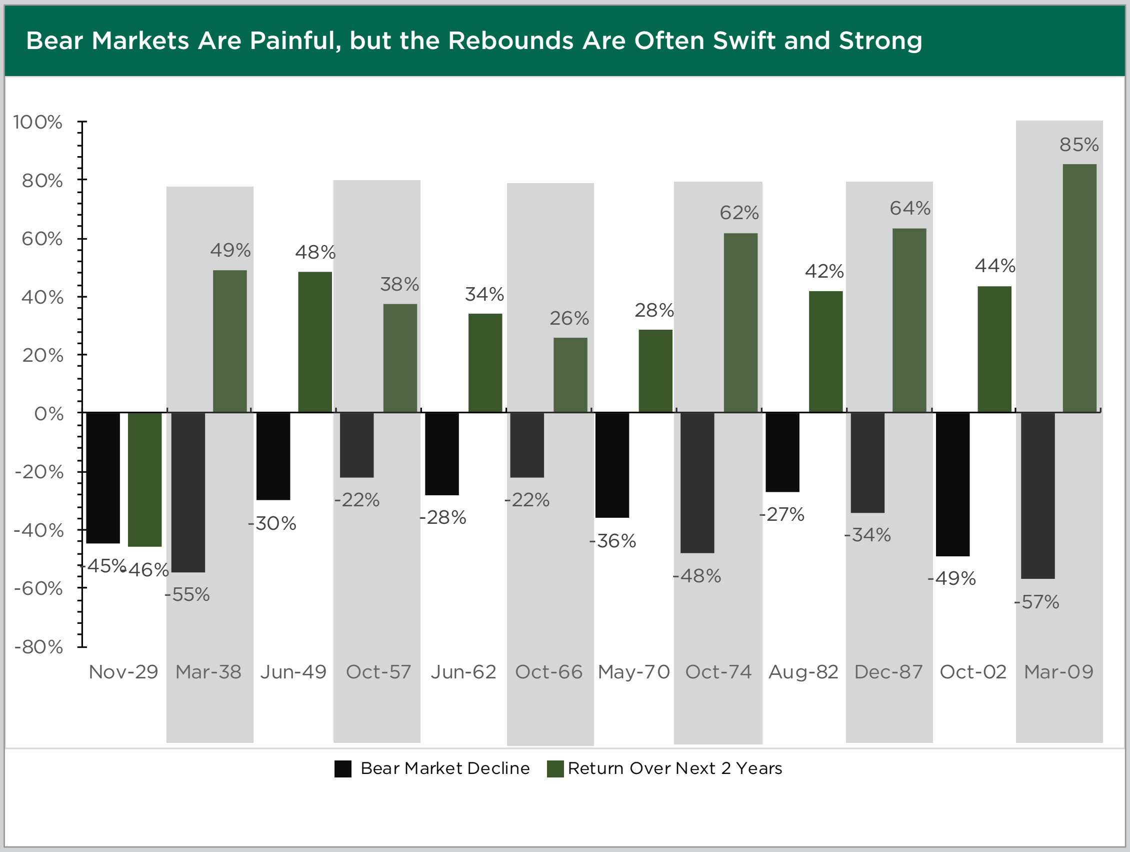
- **Downward corporate earnings revisions –** It's unclear just how punitive this will be on corporate earnings in the next quarter or two given businesses, particularly in the consumer and services sectors, are partially or fully closed for a period of time. But we think earnings estimates for 2020 will need to come down dramatically. This will be another metric that will help markets stabilize and look ahead to the future rebound in profits, which are the long-term guide for stock prices.

The range of unknowns raises the uncertainty around the timing of a rebound. While we don't attempt to time the market precisely, as a long-term investor, you should take comfort in the advantage of time in the market, not timing the market.

However, we remain confident that a rebound will take shape. It may take a while longer to materialize, but we think it will be robust and fueled by a return of confidence in the post-virus outlook. Long-term investors don't need to capitalize on the pullback all at once but should consider opportunities to benefit from this decline. Consider:

- Rebalancing – Trimming overweight allocations and filling gaps in underrepresented asset classes and sectors

- Systematic investing – Taking advantage of the ongoing volatility by systematically investing at regular intervals, reducing the "timing" aspect as the selloff plays out



Lessons from History: Light at the End of This Tunnel

Within a matter of weeks, markets have dropped to a level that to us is pricing in a fairly sharp U.S. recession, an economic outcome that looks likely, in our view. In a consumer- and service-oriented economy, widespread containment efforts make a contraction in GDP a self-fulfilling process:

- Historically, the stock market peaks on average roughly six months before a recession emerges, with economic conditions decelerating before eventually falling into contraction. Current conditions are anything but typical, with the market reacting immediately to the seemingly instant shock to the economy stemming from the unprecedented measures being taken to limit contagion. The flipside to this story, from an economic and market perspective, is more encouraging, however.

- The market has declined by more than 25% from the February highs, nearly in line with the average bear market decline. It's uncertain at this stage if this experience will be similar to past bear markets, but this indicates a substantially negative economic and earnings outcome is being priced in to stocks already, suggesting the bulk of magnitude of the selloff may have already been experienced.

- Given the root of the slowdown, we think the downturn will be steep, but temporary. This is not, in our view, a repeat of 2008/2009. This time, the financial and banking system is on firm footing, and while we expect a period of significant disruption in employment, we don't anticipate unemployment to experience a sustained spike, as is the case in traditional recessions and a root cause for a more slowly developing recovery. Despite what is likely to be a sharp decline in GDP in the coming months, given the economic foundation coming in to this, we think a recovery in economic activity, investment and the stock market can be faster and more vigorous than normal.

Looking back at bear markets (a decline of 20% or more) since 1955:

- The average total decline was 26%.
- The time from the initial 20% drop to the bottom of the market averaged 86 days.
- The stock market returned an average of 25% over the next year and 32% over the following three years.

The following table looks specifically at downturns driven more by events that shocked the market rather than a traditional end to the business cycle.

				Market Return After:		
Market Shock	Length of Market Decline	Total Decline	Time to Recover Losses	6 Months	1 Year	2 years
'20 Coronavirus Pandemic	20 days	-25%	?	?	?	?
'16 Oil/Fed Worries	123 days	-13%	47 days	21%	29%	49%
'01 9/11 Terrorist Attack	271 days	-28%	303 days	7%	-16%	49%
'98 Asian Crisis/ LTCM Collapse	58 days	-19%	32 days	41%	41%	51%
'87 Black Monday Crash	37 days	-29%	365 days	21%	26%	69%
'66 Vietnam/ Credit Crunch	167 days	-22%	143 days	24%	37%	51%
AVERAGE	131	-22%	178	23%	23%	54%

Source: Bloomberg, Edward Jones. S&P 500 Index total return.

Past performance of the markets is not a guarantee of how they will perform in the future.

Diversification does not guarantee a profit or protect against loss in declining markets.

