# 5 Reflections on a Most Eventful Year

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## by C.J. MacDonald

## of GuideStone Funds

It has been a volatile and uneasy period for the financial markets and economy since the market bottomed one year ago on March 23, 2020. The pandemic-fueled economic shutdown was certainly a unique environment for investors to endure, but the equity market has fully recovered and the S&P 500® Index has hit multiple all-time highs in recent weeks. While the forces causing the market volatility were unparalleled, this tumultuous period reinforced five lessons that may help investors weather similar periods in the future.

- **Knee-jerk reactions are often misguided.** On March 15, 2020, the Federal Reserve slashed short-term interest rates from 1% to essentially 0% and instituted a massive $700 billion mortgage and Treasury bond buying program. These strong actions by the Fed served to promote much lower interest rates across the curve and were designed to support the economy by encouraging lending to households and businesses. The next day, however, the S&P 500® declined 12%, the third-largest daily loss in its history. Investors viewed these actions as panic moves by the central bank, which caused investors to panic themselves. Looking back, the Fed's actions that day laid the foundation for the eventual economic recovery — sharply lower rates sparked a large wave of mortgage refinancing, much lower borrowing costs for businesses and new access to needed capital for high-yield bond issuers — but at the time, these steps were not well-received.
- **If the Fed says that it will do whatever it takes, believe them.** Prior to 2020, the U.S. economy had never experienced a complete shutdown before. As such, investors and economists alike were pessimistic about the near-term future facing the country and the economy's ability to quickly recover. On March 23 of last year, the Fed released a short statement that contained eight simple but forceful words. The central bank declared that it would use its "full range of tools" to ensure the proper functioning of financial markets, and that it would implement monetary stimulus "in the amounts needed" to promote the healing of the economy and employment market. These were pointedly broad pronouncements, but the gravity and focus of the Fed's attention was not lost on investors in the months ahead. The S&P 500® bottomed that day and has rallied 75% since.
- **We all have investing scars, which reveal themselves in times of crisis.** As Congress and the Fed have implemented trillions of dollars of monetary and fiscal stimulus, people who lived through the crippling inflation era of the 1970s have begun to worry that this prodigious money printing could cause a return of harmful inflation. As technology stocks rallied to dizzying valuations, investors who were burned in the dot-com craze saw tremendous risk in the rally. Investors who lost money in the housing crash of 2008-2009 fear that sharply rising home prices will end with the pop of another housing bubble. Investing lessons learned the hard way in the past are useful as risk governors for the future, but investor actions should not be dominated by them. Tragedies of the past rarely repeat themselves in exactly the same manner, and history has a way of surprising with new and unprecedented crises to endure and learn from.
- **The best buying opportunities often arrive at an investor's door dressed in fear, uncertainty and doubt.** In hindsight, market corrections always look like great buying opportunities, but potential market dips in the future always appear to carry a high risk of loss. In steady times, it is easy for an investor to claim that he or she will buy the next 10% correction, but buying the dip is difficult in practice for most investors. A correction or bear market always brings with it the fear of whatever caused the market drop in the first place and usually causes investors to conclude that the situation will worsen before it gets better. When the S&P 500® declined 33% off its recent high last March, many investors remained frozen and insisted it would decline 50% or more. Buying a market decline rarely feels right at the time but taking advantage of market dips has proven over time to be a very beneficial activity for long-term investors.
- **Market moves rarely make sense in real-time, but frequently become clear in the rearview mirror.** The stock market discounts current conditions and moves forward based on predictions of future economic activity. As such, the market tends to look past any negativity in the prevailing environment and often advances beyond current investor sentiment. In 2020, the stock market enjoyed its greatest returns in the face of spiking unemployment, increasing virus case counts and economic recession. While healing has been slow to take hold in the employment market, other areas of the economy have experienced sharp recoveries since the depths of the pandemic. Today, the stock market recovery makes a bit more sense, but it was very hard for investors to find anything to be positive about one year ago.

*C.J. MacDonald is the client portfolio manager at GuideStone Funds.*

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