Thinking Beyond the Pandemic - Peaks, Valleys, and Life in Between

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By Jeffrey Frye, Senior Client Services Advisor, PG Calc

At this point, we find ourselves in seemingly unprecedented times. The COVID-19 pandemic is sweeping the globe, infecting millions of people, and leaving hundreds of thousands of fatalities in its wake. The worst is likely over in China, and life is starting to return to some new kind of normal. In Europe, a few countries have reached the so-called apex, but other countries are at varying stages along the spectrum of the crisis. In the U.S., the picture changes greatly from state to state. By most accounts, New York – the first epicenter – has seen its peak of the crisis and is now on the downside, but the majority of states are still facing a significant ramping up in the coming days and weeks. The human toll is beyond anyone's worst imagination, and it will certainly get worse before it gets better. This will define our country and modern-day societies for generations to come. We attempt to offer some perspective in a blog post entitled "Peaks, Valleys, and Life In Between."

Aside from all of that, there are the financial concerns. Where do we even begin? Planned giving and charitable donations in general have probably taken hits far worse than any comparable patterns in recent history, but at this point, all evidence is purely anecdotal. Many donors express the sense that the sky is falling and that everything is beyond hope – and those sentiments are based on the brutal realities of the moment. The economy is in shambles, the stock market has been in free-fall mode, and ordinary Americans are wondering if and when they will go back to work. How do we begin to communicate with donors about making gifts when they are facing the worst economic losses of their lives?

Historical Perspective

It may be helpful to recall how we survived other periods of financial disaster and great economic uncertainty over the past 100 years or so. The stock market crash in 1929 led into the Great Depression; Americans endured years and years of abject misery, only to be rescued by the hyper-activity of World War II and the ensuing economic boom. Fifty-odd years later, we saw the dotcom bubble burst and the fallout from the terrorist attacks on September 11, 2001. And then, most recently, we had a major stock market crash in 2008 and the ensuing Great Recession.

We certainly remember the pain of those periods of time, but what is common in all examples is the predilection for a rebounding of economic activity; every “down” era has been followed by a recovery that has eventually eclipsed the damage sustained in the prior period. For every action, there is a reaction, as the saying goes. The United States and most other western nations are socialist democracies with capitalism at their roots, and there is a seemingly infinite ability in these countries to rise up and rebound in the long run.

Here are a few tidbits to ponder: the stock market crash of 2008 wiped out 40 to 50% of many stock portfolios and indices; the S&P 500 index return in 2008 was MINUS 37%! But the annual returns of the two following years totaled 26.46% and 15.06% respectively. So, by the end of 2010, a hypothetical stock portfolio based on the index had more than made up for the loss of 2008. And these numbers are conservative – they are based on prices only, and do not reflect dividends paid and reinvested.

In our article "Now That The Dust Has Settled", published in April of 2019, we talked about how the hypothetical investment portfolio, comprised of 50% stocks and 50% bonds, is affected by swings in the stock market. But we also tried to illustrate how the impact is softened by the bond portion of the account – and how it works whether the values of the stocks go up or down. Now we have another year in the books – 2019 – and the numbers were downright stellar: the S&P 500 was up 28.9%. That’s price only, without the dividends, but even that is an unusually high number. Also, the Barclay’s Aggregate Bond Index was up 8.7%, which is impressive by itself. Those numbers resulted in a combined hypothetical portfolio average return of 18.8%.

Now let’s look at how those recent numbers have affected the long-term averages for the 2 indices, and how the combination of the two in the hypothetical investment portfolio turns out. Here are the investment returns of the S&P 500, as well as the numbers for the Barclay’s Aggregate Bond index, for the 25 years beginning in 1995 and ending in 2019. The last column is the combined portfolio made up of 50% stocks and 50% bonds.

Year	Barclays Aggregate Bond	S&P 500	Portfolio consisting of 50% each
1995	18.46%	37.58%	28.02%
1996	3.64%	22.96%	13.30%
1997	9.64%	33.36%	21.50%
1998	8.70%	28.58%	18.64%
1999	-0.82%	21.04%	10.11%

2000	11.63%	-9.11%	1.26%
2001	8.43%	-11.89%	-1.73%
2002	10.26%	-22.10%	-5.92%
2003	4.10%	28.68%	16.39%
2004	4.34%	10.88%	7.61%
2005	2.43%	4.91%	3.67%
2006	4.33%	15.79%	10.06%
2007	6.97%	5.49%	6.23%
2008	5.24%	-37.00%	-15.88%
2009	5.93%	26.46%	16.20%
2010	6.54%	15.06%	10.80%
2011	7.84%	2.11%	4.98%
2012	4.22%	16.00%	10.11%
2013	-2.02%	32.39%	15.19%
2014	5.97%	13.46%	9.72%
2015	0.55%	1.25%	0.90%
2016	2.65%	12.00%	7.33%
2017	3.54%	21.70%	12.62%
2018	0.01%	-6.24%	-3.12%
2019	8.72%	28.88%	18.80%
Average over 25 years – 1995 to 2019	5.65%	11.69%	8.67%
Average for 20 years - 2000 to 2019	5.08%	7.44%	6.26%
Average - 15 years - 2005 to 2019	4.19%	10.15%	7.17%
Average - 10 years - 2010 to 2019	3.80%	13.66%	8.73%
Average - 5 years - 2015 to 2019	3.09%	11.52%	7.31%

The recent performance of the S&P 500 should be considered in light of this historical information. As noted above, the annual return for the index for 2019 was 28.9%. Also, the average return for the index over the past 25 years is 11.7% (1995 to 2019). Since January 1, however, the S&P has fallen substantially; *at the close of the markets on March 23, the index had fallen about 30%*. Financial panic was in full swing. And yet, what a difference a day can make, and 2 or 3 weeks can make a HUGE difference! At the close of the markets on April 13, the index had recovered *more than half of that loss, and it was only down about 14% for the year-to-date*.

Why am I pointing out these numbers? To illustrate that the stock market has already moved up from the most recent bottom on March 23; the stock market is always in motion, traveling between high points and low points. And if you look at the historical numbers, the long-term averages usually turn out to be pretty good. The worst average in our sample data is 7.44% for the 20 years ending in 2019. *All of the other long-term averages for stocks (the S&P 500) were above 10%*.

On top of that, most investors don't concentrate only in stocks; most investors have balanced portfolios that contain reasonable combinations of stocks and bonds. So we can say that the potential donors, on average, have possibly seen their equity positions decline by 10 to 15% from last year's ending values, *but the diversified portfolio would only be down by a certain portion of that range – say, 5 to 10% at worst*. And factoring in the additional yield from dividends would mitigate those results even more.

The economy is separate and distinct from the stock market, but they are certainly connected. It's important to remember that the stock market has traditionally been viewed as an estimate of the economy *about 6 months in the future*. But we already have a floundering economy – we've lost 20 million+ jobs in a just a few weeks, and unemployment claims have shattered all previous records. In most states, governors have declared that only essential businesses and services may remain open, and the mandates have been extended well into May. With entire industries at a standstill, the aggregate output of the American economy surely will fall dramatically for at least a couple of quarters, but it's too soon to predict GDP for the year as a whole.

Looking Ahead

While the argument can be made for declining economic activity over an extended period of time, it seems there is a stronger argument for rapid and dramatic turnaround. Americans will come out of this crisis still reaching for better quality of life, as they always have. There will be pent up demand for products and services, and also demands that have been newly created by the damage and destruction of the pandemic itself. And on top of the naturally occurring turnaround, the federal government has begun to take measures to prop up the economy; massive stimulus spending could help to create a level of hyper-activity similar to what occurred during and after World War II.

Better days lie ahead, indeed – not because of some vague notion that life should turn out that way, but because the societal foundations and the enterprising spirit of the citizenry dictate such an outcome. The pandemic will continue to move through the U.S. and other countries, and it will cause levels of suffering and losses of lives such that we have not seen in over a hundred years. But it will pass in time, and we will return to some semblance of normalcy. Supporters of non-profit organizations will regain a sense of financial security, and they will become generous donors once again. It always works that way – time and again, the human condition fosters the ability to climb out of the valleys; we push onward across the distances and strive for ever higher ground.