**Ameriprise Audiocast**
Navigating near-term concerns while maintaining a long-term focus
March 24, 2020

Speakers:
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**Anthony Saglimbene**, Global Market Strategist
**Russell Price**, Chief Economist

**Marcy Keckler:**
Hello, I'm Marcy Keckler, vice president of Financial Advice Strategy at Ameriprise Financial. Thank you for listening to our audiocast today. You can listen to our full series of audiocasts at Ameriprise.com/marketvolatility.

Today, we want to provide you with some further thoughts and ideas that you might want to consider discussing with your financial advisor given the current market and economic environment and to join me for discussion today are my Ameriprise colleagues. First is Anthony Saglimbene, who's our global market strategist. Welcome, Anthony.

**Anthony Saglimbene:**
Hello, Marcy.

**Marcy Keckler:**
And secondly, is Russell Price who's our chief economist. Welcome, Russ.

**Russell Price:**
Hi, Marcy, thanks for having me.

**Marcy Keckler:**
So today we're going to talk about market conditions and economic conditions. We're going to hear what Anthony and Russ are paying attention to, what they're watching for and importantly, how we can put it in some historical context. So with that, Anthony and Russ, I know you're both watching the markets and the economic conditions closely and there's a lot to watch. So Anthony, let's start with you. Stocks are continuing to grapple with what really feels like a high level of uncertainty, can you talk about what you're seeing in the market right now?

**Anthony Saglimbene:**
Yeah, absolutely and as you kind of highlighted, I mean, there is a lot of uncertainty in the market around our health crisis and just the changing almost daily changing circumstances of what’s happening on the economic front. And markets are just trying to digest all of this uncertainty, so when you look at last week’s performance, the S&P 500 fell by 15%. It was one of the worst weeks

since the October 2008 financial crisis. And when you have these high degrees of uncertainty, it's very difficult for investors to anticipate and price what the future looks like. And I think that's what you're seeing in a nutshell in the market today. We've been looking and doing some homework on what does this period look like versus history and I would say the movement that we've seen over the last several weeks in the stock market is most analogous to periods like 1929 and 1987 where you see very steep declines quickly in the market before you find some stabilization. And I, I would look at where we've gone just over the last several weeks. The S&P 500 is down roughly 34% in a very short period of time. A lot of negativity about the economic circumstances, about the profit outlook, and just the fear of what's happening with the coronavirus. That has been priced into stocks and I would say that that context of 1929 and 1987 is really just that. It's context. Where we are today and what we're going through today is very unique. Businesses shuttering, states almost daily restricting movement of the people, and more and more focus is being diverted to fighting this healthcare crisis. That is a unique situation for America right now. And I would say trying to anticipate what profits and what growth will look like is really just guesswork right now. We'll talk about some of the circumstances that we think will level out the market but I think during these really uncertain times and high periods of volatility, your best solution is really to just practice caution in your portfolio. Limit the moves that you make in your portfolio to smaller increments. And I would, again, like we said last week, lean on your financial advisor. We're publishing a lot of information on what's happening in the market and the economy, and then we're trying to arm you and your advisor with information so you can make more informed decisions about your portfolio.

**Marcy Keckler:**
Thank you, Anthony. I really appreciate that, particularly your perspective on the importance of being informed but also bringing a spirit of caution and leaning on our financial advisors because that's what they're there for is to help clients through these challenging times. So Russ, we heard a good setup from Anthony about the stock market in particular, but of course, it's connected to but distinct from the broader economy. And so I'd love to get your thoughts about the economic front. We know as Anthony alluded to, you know, prospects are really changing almost daily given the dynamic environment and actions at state and local levels to ask people to stay at home, and that's having effects across industries. But can you give us your latest perspective on economic outlook?

**Russell Price:**
Sure, Marcy. Well, as Anthony mentioned, there's almost a new list of different shutdowns by industry in various states that are putting additional economic pressure on the outlook to be sure. As he also mentioned, though, and it's primarily driven by the need to protect, protect our human health over the near term. We do expect the second quarter of this year, which is April, May, and June timeframe, to look particularly ugly. Economic growth is likely to contract quite

considerably. We’re very likely to see large increases in things such as unemployment insurance and reductions in overall labor payrolls, so it is going to be a very difficult situation. But also as Anthony mentioned, this situation seems to have very little precedent. The, the shutdown is very likely to be very short-lived, in our view at least, probably the worst of it should be contained to the second quarter, although certainly we’re not even in the second quarter as of yet, and we believe that economic conditions were sound enough to where we’re likely to see a pretty solid rebound on the other side. We came into this situation with consumers being in very good shape as far as having their debt levels quite low relative to historical precedence, and the banking system, the financial system in general were both in very good shape as well, and as Anthony alluded to, stock market valuations were a little bit elevated but not excessively so, as we may have seen in the late 1990s and into 2000. So the economic situation I think is going to look quite ugly, but a lot of that data is going to come out after the fact, after we start to see the health side of the equation start to improve. So it is going to be a challenge, no doubt, and so obviously quite scary, but I think we’ll get through this period in pretty good shape.

**Marcy Keckler:**
Great. Thank you, Russ. Really appreciate that perspective. And Anthony, I would love to turn back to you. We really see daily movement in the market that has been pretty extreme and for a number of weeks. Could you share some thoughts on how clients should interpret the market movement that we’re seeing?

**Russell Price:**
Yeah, yeah. I mean, I think when you look at the direction of stocks daily, it really does suggest some of what Russ was highlighting is there’s a lot of uncertainty and negativity being built into stock prices and I think to some degree, stock prices have reflected that and I think where we sit right now, a lot of that negativity has been priced in. But I think when you see a general trend down in the market, it’s hard to recognize that on a daily basis,whether we’re up or down, the market is trying to figure out what the future looks like and at what base it should be. So you don’t really get that impression when you see these huge moves in volatility, but I would say you know the, the up days suggest that the market is trying to anticipate where the bottom is and what we’ve been talking about and looking at is the December 2018 lows in the S&P 500. That’s an important technical perspective just for the market to find some semblance of a floor. And we don’t know if that will hold and markets may move lower, particularly if some of the fundamental data gets worse or some aspects of the health crisis continue to create volatility.

But I think that’s a very important level at least here in the near term and even though we could see markets move lower from here, it would likely be accompanied with further negativity in terms of the economic and health crisis outlook. And I do believe personally that over time we will see some more

positive aspects around how we're fighting this virus. But for now, I'll tell you the volatility that, that the market is seeing right now is historic, just in this downdraft during the coronavirus, the S&P 500 has recorded two of its top ten strongest days and three of its largest down days over the last 70 years. So if you're sitting there and thinking hey, the market is really volatile, it is, and I think that's because the market's having a very difficult time trying to discount the future. When you look at volatility just on its own, the volatility is at very extreme levels today. A, typically volatility doesn't stay at these elevated levels for very long but when we're in these really highly uncertain periods, volatility does persist at elevated levels longer. What we've seen is that over the very near term, that means maybe equity markets respond a little bit more negatively, maybe there's a little bit more downside, but once that bottom is found, generally, based on history, volatility does start to ebb lower and returns over the next 6 to 12 months are better. And I would say that the biggest thing that investors should keep in mind is that the markets have already discounted a lot of negativity today, a lot of the declines are in the markets today. Going forward, we will find a bottom, we will have more information about the uncertainty in the economy and on the healthcare crisis front, and markets will eventually respond to that, stabilize, and maybe move higher over time. This is the time to make sure that you're not making critical errors and getting out of stocks when a lot of the negativity has already been priced in.

**Marcy Keckler:**
Thank you, Anthony. And that's really helpful perspective because on the days when we see the market down so substantially, it is important to remember that in short order, there may be an equally dramatic move up and that was really interesting that some of the biggest moves up and down have happened within the same time period. It almost feels like one of the most exciting roller coasters we'll ever be on, so it's great perspective that it is historic and but that the information around uncertainty will, things will clear up and we'll have some greater certainty as we move forward, and so that's really helpful perspective. So Russ, I'd love to turn back to you and ask you a question that you and I have certainly talked about a number of times over the last year or more, and that is do you think we are going to have a recession?

**Russell Price:**
Well, certainly I think once this period passes, eventually I do think that the academic economists that are charged with making that designation or not will eventually see this period as a recession period. But the odds are, at least in our view, that we may not meet that traditional definition of two consecutive quarters of negative real GDP growth. The definition has changed a little bit over the years and it's been updated for current modern economy, so the very sharp decline that we're likely to see in the second quarter of this year, it is likely to be historic as far as its decline during the worst of the 2008-2009 Great Recession, the largest quarter-over-quarter decline annualized was 8.4% in the fourth quarter of

2018 we're likely to exceed that downturn pretty easily, unfortunately. But as I mentioned earlier, I think it will be very short. So I don't really, I'm not a fan of using the word recession to describe what we're likely to go through, primarily because it puts negative thoughts into people's minds as far as the economic hardships that we've all lived through in the past, and I think that this will not be the traditional prolonged period of decline that we maybe remember from those periods. Now, the most important factors are I think to making sure that it's a short period of contraction is to keep the financial system functioning and it's important to note that the banking system came into this situation in what we believe to be very strong shape. And the Federal Reserve, the actions that they've been taking over recent weeks have been very encouraging and very supportive of financial functioning and supporting of businesses during this period. So and also we're waiting on Congress at this time, they're in the process of negotiating quite a large stimulus package. We do think that that will be passed within the near term, and that should provide further support to individuals, small businesses, and larger businesses that may need bridge financing through this period, so although we may see the definition of recession, Marcy, I think that it will be much different than what many of us have experienced through our lives to this point.

**Marcy Keckler:**
Thank you, Russ. Really helpful perspective that, first of all, the definition of a recession has changed and that the nature of every recession is not equal, so really helpful. I appreciate that. Anthony, I'd love to turn back to you and get your thoughts on some of the key metrics that you are watching that could really help stabilize markets and potentially smooth out the volatility as you talked about earlier.

**Anthony Saglimbene:**
Yeah. Russ mentioned a few of them, which I think are very important. He highlighted that the Q2 growth in the US economy will be severely negative. And I think that's why you're seeing some of the fiscal and monetary responses be so quick to react and then, also, how large and historic some of these packages that we're seeing coming out. Russ is correct. We need the financial system to function. That is a critical component of, of helping stabilize the markets. I think one of the big things that we're looking at right now is we need to see Congress pass a stimulus package. It needs to be large, it needs to support not only consumers, but it needs to support businesses and essential critical industries to make sure that we can weather this economic stop, so I think that's one of the big items we're looking at to help stabilize the market. I think the other item that is helping stabilize the market but probably isn't getting as much recognition is what Russ mentioned on the monetary front. I mean, the, the Federal Reserve has really pulled out all the stops to make sure their liquidity spigot is open fully. So when you look at dropping interest rates to zero, open-ended asset purchases,

which now includes corporate bonds, they've opened up three new lending facilities to help backstop businesses, consumers, and corporate markets. The market really isn't really appreciating these types of actions right now but we think over time they will. When you combine that with a fiscal stimulus that kind of gets us through the next 10 to 12 weeks, then I think you have a very strong fiscal and monetary response that helps backstop the markets. The other big item that I think markets are really looking at right now is just a better handle on the healthcare crisis. We need to see more tests, we need to see hospitals with more supplies, we need a concerted effort to make sure that we are doing everything we can to help bend that health curve and make sure that our hospitals can deal with the influx of people coming in with the coronavirus. I think if we can get those three things stabilized, then I think that will give the market a chance to really stabilize. And I would kind of throw this back to Russ is you know, if we get these three items and we see stabilization in the market, what's the economy look like on the other side?

**Russell Price:**
That's absolutely right, Anthony. I think that's sort of the key question as to how solidly the US economy or the global economy for that matter can recover from the situation. And I do think that the prospects are pretty good. We have to keep in mind that by far the people that are being hurt the most, that is the people that are being laid off from their employment during this period are hourly workers, and hourly workers do make up approximately 30, excuse me, 55% of the US labor force, so that's an awful lot of people, but once, because those people are being charged with staying home and the businesses that they work at are, are closed and a lot of places and a lot of our high population states primarily because of direction of state officials that are closing down the economy to reduce that spread of the virus. Once we get through this period and the virus, once we get control of the situation I do think that day will be coming within the next few weeks or months, but people will still need at the end of the day, they'll still want to go out to restaurants or bars or movies. Certainly, we may all be cooped up a little bit too long in the meantime but we'll also still need automobiles and airplanes and washing machines and everything else and construction activity will resume. And what's very important as well is the idea that for economic growth, I mentioned before real gross domestic product, which is the largest all-encompassing measure of economic activity, those numbers are reported by changes in the quarter-over-quarter growth rate that is then annualized. And what annualizing that number means is the number is shown as if okay, what if this growth rate continues for four consecutive quarters? So it amplifies those numbers, so Q2 will look very, very difficult but quite maybe not quite as difficult as the reality, the reality will be less. Now on the other side, even if we grow modestly in the third quarter, again, that annualization process will make the GDP growth numbers look very strong. And as people go out and they start to enjoy their life, and return to their normal life I should say, those numbers I think that the prospects for economic recovery are still quite good. Of course, it

will take some time to fully get manufacturing back up to speed and to smooth over some of the bumps that will be left behind in the wake of this crisis, and the same will be true for global supply chains as well. But I do expect that many people will back to work very quickly after this, maybe not all, we probably won't get back to 3.5% unemployment rate within a month or two by any means but I think that those days will be coming and they, there's opportunity for recovery to be quite solid.

**Marcy Keckler:**
Thank you, Russ and thank you, Anthony. I appreciate the perspectives you both shared today to help us think about what's happening in the markets and the economy and how to think about that in perspective of history and longer-term trajectory. I do want to ask, Anthony, if you might be able to expand just a little bit on some of the comments you made. You talked about both fiscal moves and monetary moves. I wonder if you'd be able to just remind us the kind of key distinctions between those two terms and a little bit about how they're related.

**Anthony Saglimbene:**
Yeah, absolutely. So in terms of the fiscal moves, that, that's really coming from the government. That is, you know, Congress passing legislation or bills that help put money in consumers' pockets or help the airline industry kind of go through a very difficult period. Those pieces of law help facilitate money that can be spent on different areas through the economy. The monetary front is really the Federal Reserve's you know, ability to keep liquidity moving through the system, so they the ability to control short-term interest rates, which gets used for several different lending facilities. They have the ability to buy assets, so what the Fed is doing right now is on the secondary market they're buying treasuries and mortgage-backed securities and now corporate bonds to help keep the plumbing and liquidity going through the system. Those two actions combined help the economy, help stabilize the markets, and as Russ pointed out, helps the financial system to continue to move on even during this difficult period.

**Marcy Keckler:**
Thank you, Anthony. So maybe just to summarize, if Congress and the President are doing, it's fiscal and if it's the Fed, it's monetary and they kind of work in harmony to keep the whole system going. So that's a really helpful reminder for all of us. There's lots to watch in the news and your perspectives have both been really helpful for all of us to keep an eye on where things are and think about where we're headed. So thank you so much. I really appreciate it. And I want to say thank you to all of the clients who've joined today's audiocast and to our advisors who may be listening as well, and to say that on behalf of all of us at Ameriprise, we are honored by the trust that our clients place in us to help achieve the retirement and lifestyle dreams and goals that you have. Your financial advisor cares about you, your advisor knows you and your family and your personal situation. They're here to help and we're here to help them. We

care about your financial circumstances but we also care about your health and safety, so continue to do all you can to take care of yourself and your loved ones and thank you for joining us.

And finally, I'd like to share some important disclosures.

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