

# Investment and Fiduciary Consulting

**Market update:** Where do nonprofits go from here?



Nonprofit

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**Gallagher**

Insurance | Risk Management | Consulting



## Perspectives

The last two months have been a whirlwind, with stocks enduring a severe plunge as investors reacted to the spread and economic impact of COVID-19, followed by a meaningful rebound in recent weeks. We expect volatility to remain elevated for the foreseeable future and, as noted above, it is possible that stocks could retest the lows of March 23, particularly given the great uncertainty over the timing and trajectory of an eventual economic rebound.

That being said, we have a modestly favorable outlook on stocks for the short to intermediate term (i.e., 12-18 months), largely for the reasons outlined above: the expectation that more favorable medical news will be forthcoming regarding containing COVID-19, the tail wind provided by substantial monetary and fiscal support measures, and the fact that stocks are likely to rebound before fundamentals bottom.

In the meantime, investors may want to consider capitalizing on certain pockets of opportunity that have emerged amid the market turmoil, such as the following.

**Corporate credit:** The Federal Reserve’s programs to purchase both investment-grade and non-investment-grade corporate bonds have provided much needed support to those markets. In addition, history indicates that subsequent returns are quite favorable for such bonds when their yield spreads (the excess return investors demand over comparable maturity Treasury bonds) reach levels exhibited recently, as depicted below.

### INVESTMENT-GRADE CREDIT ANNUALIZED RETURNS AFTER SPREADS WIDENED TO AT LEAST 200 BPS

# OF OCCURRENCES: 47	1-YEAR TOTAL RETURN	3-YEAR TOTAL RETURN
<b>Average</b>	10.2%	8.5%
<b>Median</b>	10.3%	7.8%
<b>Maximum</b>	31.2%	15.8%
<b>Minimum</b>	-10.9%	3.7%
<b>% Positive Returns</b>	87%	100%
<b>% Negative Returns</b>	13%	0%

Source: Gallagher research, based on data from FactSet, beginning August 2000. Occurrence based on spread at month end.

### HIGH-YIELD ANNUALIZED RETURNS AFTER SPREADS WIDENED TO AT LEAST 800 BPS

# OF OCCURRENCES: 47	1-YEAR TOTAL RETURN	3-YEAR TOTAL RETURN
<b>Average</b>	23.7%	15.7%
<b>Median</b>	24.9%	13.9%
<b>Maximum</b>	64.5%	26.1%
<b>Minimum</b>	-19.3%	10.1%
<b>% Positive Returns</b>	85%	100%
<b>% Negative Returns</b>	15%	0%

Source: Gallagher research, based on data from FactSet, beginning January 1995. Occurrence based on spread at month end.



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**Distressed opportunities:** The current financial market and economic environment is presenting a multitude of distressed and/or opportunistic investments for consideration. Gallagher is currently reviewing and evaluating multiple private funds offered by well-established firms with extensive experience investing in these types of opportunities.

We continue to encourage long-term investors to follow a disciplined approach that includes maintaining a diversified portfolio with appropriate levels of risk that can withstand short-term declines, to rebalance portfolios to adhere to long-term policy guidelines when appropriate (subject to cash flow considerations, anticipated reductions in incoming donations, adjustments to spending distributions and general market conditions), and to seek to capture strategic and tactical asset allocation opportunities as they arise. Likewise, we discourage speculative attempts to time the market, but would advocate being aware of prevailing market circumstances when determining what to sell to fund portfolio distributions. Your Gallagher consultants are closely monitoring events and circumstances as they relate to individual client portfolios, and will provide the necessary guidance to make financial moves when appropriate.

For more information on how Gallagher can help with your nonprofit's investment portfolio, please contact the nonprofit team at [nonprofitpractice@ajg.com](mailto:nonprofitpractice@ajg.com).

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