

Navigating the market turmoil

Apr 6, 2020 • Armando Senra

We are in uncharted waters. No one knows for certain how long this crisis will last, or what the economic impact will be. But we know that this too will pass, just as other crises throughout history have.

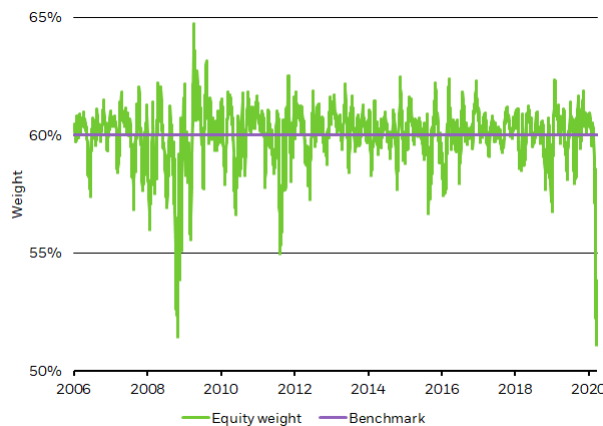
That's why the most important thing to do is not panic when markets fall, and temper exuberance when they rise. The swings of the markets can exhaust even the most experienced market participants. Perhaps it makes sense to practice some "social distancing" from your portfolio by tuning out the daily ups and downs of the market.

Investors should instead focus on the long term. We believe that a diversified asset allocation is a critical factor in meeting long-term goals, rather than market timing. After all, it is extraordinarily difficult to time the market, to try to sell at the top and buy at the bottom. Historically, the S&P 500 index has returned an average of 22% in the six months after a selloff going back to 1962, and 46% two years later (Source: Bloomberg, as of March 16, 2020). As painful as it may be, if you have a well-diversified portfolio, it's important to stay the course.

Still, every investor is different. Goals, risk tolerance and the current state of an investor's portfolio all matter. And while I'm not suggesting we've reached a bottom, from a long-term perspective, investors should continue to monitor their asset allocation and consider rebalancing back to strategic weights or to capitalize on opportunities the current turmoil presents.

After all, a traditional 60/40 portfolio (in other words, consisting of 60% equities and 40% bonds, which is often used as a representative allocation for long term investing), would now be a 51/49 portfolio. That could mean your portfolio is not aligned with the risk you are willing to take to achieve your goals. The last time markets experienced this kind of volatility – during the 2008/2009 financial crisis – hypothetical investors who rebalanced back to their target asset allocation every time their portfolio moved more than 5% from its 60/40 target outperformed by 1.77% those who didn't¹. Even so, those who stayed invested through the crisis were still far better off than those who missed out on the rebound. Again, this is not about trying to time the bottom, but simply staying on track to meet your goals.

One-month drift from equity benchmark in a 60/40 portfolio, 2006-2020



Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index.
Source: BlackRock Investment Institute, with data from Refinitiv Datastream, March 2020. Notes: The chart shows the rolling one-

month move away from the benchmark weight of equities in a hypothetical 60/40 portfolio of 60% equities and 40% bonds. We use the MSCI World Index and Bloomberg Barclays Global Aggregate Bond Index to represent the two asset classes.

Against that backdrop, over the last few weeks, I've spoken with a broad number of institutions, financial advisors and other investors about how they are addressing this turmoil. Here are five ideas they are pursuing to help bolster a portfolio and make it potentially more resilient, all accessible with iShares ETFs:

Keeping the core: The core of a portfolio is the foundation, which typically consists of a blend of stocks and bonds appropriate for the investor's goals and risk appetite. The velocity of recent market declines means that now may be a good time for investors with a long-term horizon to add to a broadly diversified equity portfolio through exposure to U.S. stocks and other core exposures for a portfolio. As noted above, this may mean adjusting one's portfolio to return to a target strategic asset allocation, most likely by "re-risking" into equities, and reducing fixed income.

Focusing on quality exposures: We are likely to be entering a recession, although no one knows what its length or severity might be. If that's the case, it makes sense to own higher quality companies with strong cash flows, stable earnings and low debt levels. These are the types of companies that historically have provided some measure of resilience in a portfolio.

Minimizing volatility: Given the unprecedented upheaval we've seen in the markets, some investors are wanting to try to mitigate volatility while keeping exposure to stocks. Investors have embraced strategies designed to reduce overall equity market risk in recent years, so-called minimum volatility strategies. In fact, these were among the fastest growing ETFs in 2019.

Embracing environmental, social and governance (ESG) strategies: We believe high-ESG rated companies may perform better in a post-Coronavirus environment and add resilience to a portfolio. These companies tend to have quality attributes: strong balance sheets, stable businesses and a strong corporate governance. They typically treat their employees well, so can recruit and retain the best talent, and use resources efficiently.

Thinking about the future: Long-term investors should remember the structural changes that are transforming our economy and society. For example, these would include companies with significant exposure to many areas in focus right now like cloud data and networks enabling mobile work, displacing older technologies, creating new markets, and with the potential to create positive economic benefits. Another area is health care advances driven by demographics as Americans over 65 prepare to outnumber those under 18 for the first time. This trend is driving more R&D and breakthroughs in two of the most exciting areas of medical advancement – genomics and immunology – that are not just on the front lines today but also positioned to deliver a healthier tomorrow. These themes aren't just attractive because they are front-of-mind now; investing in such megatrend strategies positions one for the long term at time when they are exhibiting even more appealing valuations as the broad market has declined. While some of these areas have seen less of a decline than the broad market because of increasing demand in the short term, that may underscore the long-term appeal of these trends.

A final note: When investing for the long term, selecting the right investment vehicle is critical. Throughout these tumultuous times, iShares exchange traded funds have proven to be a go-to investment vehicle for investors. They can be effective building blocks for investors' portfolios, providing transparency, efficiency and quality. Their resilience has been apparent in recent weeks, but their value over the long term is key.

Related iShares Funds

QUAL

iShares Edge MSCI USA Quality Factor ETF

USMV

iShares Edge MSCI Min Vol USA ETF

ITOT

iShares Core S&P Total U.S. Stock Market ETF

ESGU

iShares ESG MSCI USA ETF

XT

iShares Exponential Technologies ETF

IDNA

iShares Genomics Immunology and Healthcare ETF



Armando Senra
Head of iShares Americas, BlackRock

> [Read more](#)

iShares by BlackRock



INVESTMENT STRATEGIES

View all
Build sustainable portfolios
Get your core in shape
Invest with bond ETFs
Access factor-based strategies
Find income with ETFs
Invest in the future with megatrends
Diversify internationally
Evolve your sector exposure

MARKET INSIGHTS

View all
ETF & industry trends
Income
International
Sectors

EDUCATION

What is an ETF?
ETFs vs. Mutual Funds
How to buy ETFs
ETF ecosystem
What is index investing?
What is bond indexing?
What is smart beta?
What is sustainable investing?

RESOURCES

Build a diversified portfolio
Customize bond ladders
Analyze factor exposures
View all tools
Financial & legal
View all documents
iShares tax center
Tax documents
Capital gains distributions
Institutional investors

[About iShares](#)

[Contact iShares](#)

[Terms & Conditions](#)

[Privacy Policy](#)

[Business Continuity](#)

[Product Announcements](#)

[FINRA BrokerCheck](#)

© 2020 BlackRock, Inc. All rights reserved.

¹ Source: MPI Stylus as of March 20, 2020. The 60/40 portfolio modeled here is a blend of 60% MSCI All Country World Index, 40% Bloomberg Barclays U.S. Aggregate Index from 10/31/2007-12/31/2009. Past performance is not guarantee of future results.

Carefully consider the Funds' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses or, if available, the summary prospectuses, which may be obtained by visiting the [iShares Fund](#) and [BlackRock Fund](#) prospectus pages. Read the prospectus carefully before investing.

Investing involves risk, including possible loss of principal.

This material represents an assessment of the market environment as of the date indicated; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any issuer or security in particular.

The strategies discussed are strictly for illustrative and educational purposes and are not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any strategies discussed will be effective.

The information presented does not take into consideration commissions, tax implications, or other transactions costs, which may significantly affect the economic consequences of a given strategy or investment decision.

This material contains general information only and does not take into account an individual's financial circumstances. This information should not be relied upon as a primary basis for an investment decision. Rather, an assessment should be made as to whether the information is appropriate in individual circumstances and consideration should be given to talking to a financial advisor before making an investment decision.

Diversification and asset allocation may not protect against market risk or loss of principal.

A fund's environmental, social and governance ("ESG") investment strategy limits the types and number of investment opportunities available to the fund and, as a result, the fund may underperform other funds that do not have an ESG focus. A fund's ESG investment strategy may result in the fund investing in securities or industry sectors that underperform the market as a whole or underperform other funds screened for ESG standards.

There can be no assurance that performance will be enhanced or risk will be reduced for funds that seek to provide exposure to certain quantitative investment characteristics ("factors"). Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. In such circumstances, a fund may seek to maintain exposure to the targeted investment factors and not adjust to target different factors, which could result in losses.

The iShares Minimum Volatility Funds may experience more than minimum volatility as there is no guarantee that the underlying index's strategy of seeking to lower volatility will be successful.

Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and than the general securities market.

Technology companies may be subject to severe competition and product obsolescence.

The Funds are distributed by BlackRock Investments, LLC (together with its affiliates, "BlackRock").

The iShares Funds are not sponsored, endorsed, issued, sold or promoted by Barclays, Bloomberg Finance L.P., BlackRock Index Services, LLC, Cohen & Steers Capital Management, Inc., European Public Real Estate Association ("EPRA"), FTSE International Limited ("FTSE"), ICE Data Services, LLC, India Index Services & Products Limited, JPMorgan Chase & Co., Japan Exchange Group, MSCI Inc., Market Indices Limited, Morningstar, Inc., The NASDAQ OMX Group, Inc., National Association of Real Estate Investment Trusts ("NAREIT"), New York Stock Exchange, Inc., Russell or S&P Dow Jones Indices LLC. None of these companies make any representation regarding the advisability of investing in the Funds. With the exception of BlackRock Index Services, LLC, who is an affiliate, BlackRock Investments, LLC is not affiliated with the companies listed above.

Neither FTSE nor NAREIT makes any warranty regarding the FTSE NAREIT Equity REITS Index, FTSE NAREIT All Residential Capped Index or FTSE NAREIT All Mortgage Capped Index; all rights vest in NAREIT. Neither FTSE nor NAREIT makes any warranty regarding the FTSE EPRA/NAREIT

Developed Real Estate ex-U.S. Index, FTSE EPRA/NAREIT Developed Europe Index or FTSE EPRA/NAREIT Global REIT Index; all rights vest in FTSE, NAREIT and EPRA. "FTSE" is a trademark of London Stock Exchange Group companies and is used by FTSE under license.

© 2020 BlackRock, Inc. All rights reserved. **BLACKROCK, BLACKROCK SOLUTIONS, BUILD ON BLACKROCK, ALADDIN, iSHARES, iBONDS, iSHARES CONNECT, FUND FRENZY, LIFEPAATH, SO WHAT DO I DO WITH MY MONEY, INVESTING FOR A NEW WORLD, BUILT FOR THESE TIMES**, the iShares Core Graphic, **CoRI** and the **CoRI logo** are registered and unregistered trademarks of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. All other marks are the property of their respective owners.

ICRMH0420U-1128343