Combating Downturns

Markets in Motion Series

American Century Investments®

FINANCIAL FYI

What Ails the Market—Uncertainty

We live in an uncertain world. Unfortunately for investors, too much uncertainty gives the market a terrible case of heartburn. Even though the market has posted a healthy start to the year—apprehension remains.

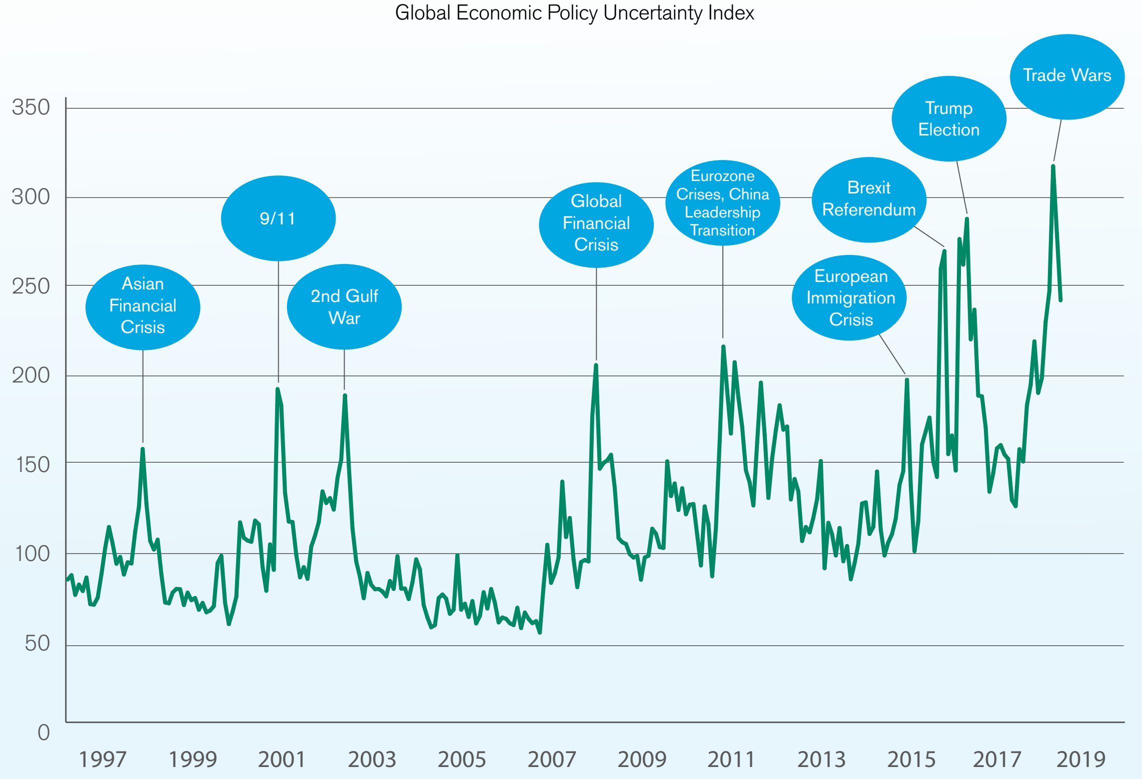
Three Top Contributors to Current Market Jitters:

- Signs of slowing economic growth around the world
- Uneasiness about tariffs and ongoing trade disputes
- Concerns about the Federal Reserve's and other central banks' responses to a global slowdown

One way to diagnose the degree of uncertainty is with the Global Economic Policy Uncertainty (GEPU) Index. It looks at the frequency of reporting on uncertainty in 20 countries.

Global Uncertainty Is on the Rise

Global Economic Policy Uncertainty Index



Uncertainty gauge hit a record high at the end of 2018.

The Global EPU Index is a GDP-weighted average of national EPU indices for 20 countries. Each national EPU index reflects the relative frequency of a country's newspaper articles that contain a trio of terms pertaining to the economy (E), policy (P), and uncertainty (U).

Data from 1/1/1997 to 2/1/2019. Source: "Measuring Economic Policy Uncertainty" by Scott R. Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com.

Greater clarity on trade, interest rates and economic growth would soothe market pain, but appears unlikely in the near term. However, you can take steps to combat the effects of a downturn on your portfolio.

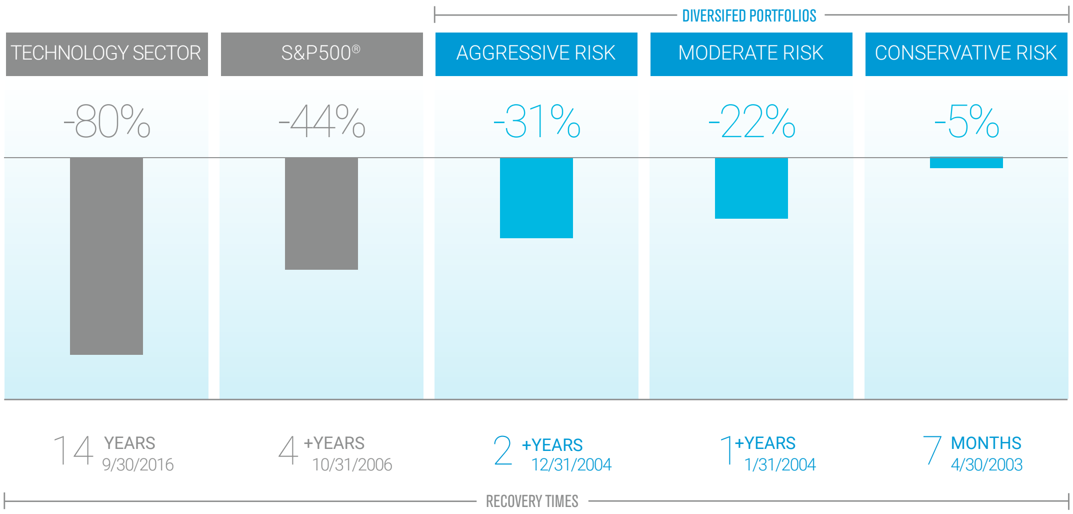
Chicken Soup for the Portfolio—Diversification

Chicken soup is an age-old home cure for the common cold, now with plenty of evidence to back it up. Similarly, diversification is a known treatment to help manage for portfolio ills caused by uncertainty.

Take for example the "dot-com crash" in 2002, when technology stocks plummeted after enjoying a huge run-up in prices. The magnitude of declines and ensuing recovery times were remarkably different depending on the degree of diversification and risk.

History Shows Diversification Works

Returns During Dot-Com Crash, April 2002 to September 2002



Portfolios with more exposures to other sectors and asset types still declined, but recovered from losses much sooner.

Source: Morningstar. Technology sector represented by the S&P 500 Information Technology Index. Diversified portfolios are represented by Morningstar category averages as follows: Aggressive Risk – Allocation -70% to 85% Equity; Moderate Risk – Allocation-50% to 70% Equity; Conservative Risk – Allocation-30% to 50% Equity. See Glossary for index and Morningstar category definitions.

Prescription for Portfolios

With uncertainty running high, we believe that the best course of action is to focus on diversification. Your financial health depends on a carefully constructed plan that aligns with your age, risk tolerance and goals for the future. Stay on track with periodic portfolio checkups.

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Definitions

GDP: Gross domestic product (or GDP) is a measure of the total economic output in goods and services for an economy.

S&P 500 Information Technology Index: An index that comprises those companies included in the S&P 500 that are classified as members of the Global Industry Classification Standout (GICS)® information technology sector.

Morningstar Allocation – 70% to 85% Equity (Aggressive): Funds in allocation categories seek to provide both income and capital appreciation by investing in multiple asset classes, including stocks, bonds, and cash. These portfolios are dominated by domestic holdings and have equity exposures between 70% and 85%.

Morningstar Allocation – 50% to 70% Equity (Moderate): Funds in allocation categories seek to provide both income and capital appreciation by investing in multiple asset classes, including stocks, bonds, and cash. These portfolios are dominated by domestic holdings and have equity exposures between 50% and 70%.

Morningstar Allocation – 30% to 50% Equity (Conservative): Funds in allocation categories seek to provide both income and capital appreciation by investing in multiple asset classes, including stocks, bonds, and cash. These portfolios are dominated by domestic holdings and have equity exposures between 30% and 50%.

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