Combating Downturns

Markets in Motion Series

American Century Investments®

FINANCIAL FYI

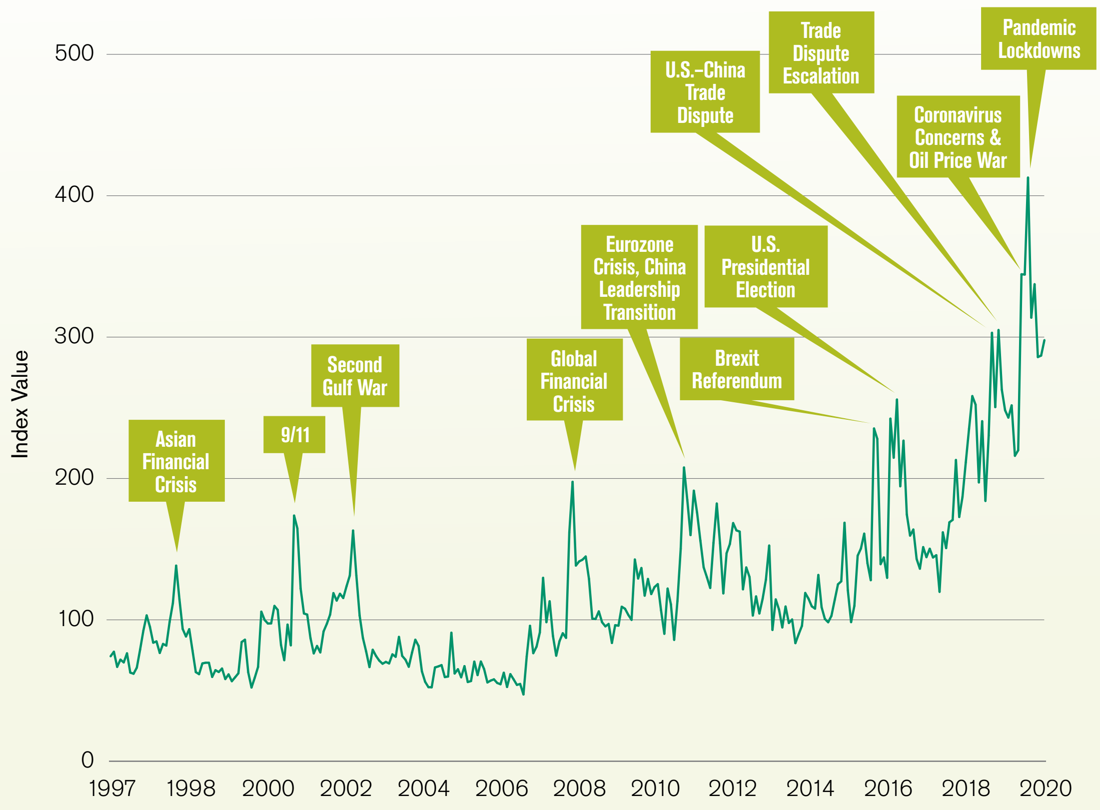
What Ails the Market—Uncertainty

We live in an uncertain world. Unfortunately for investors, too much uncertainty can cause big swings in stock market performance. Although these times can be unsettling, there are steps you can take to help combat the negative effects on your portfolio.

One way to diagnose the degree of uncertainty is by looking at the Global Economic Policy Uncertainty (EPU) Index. It looks at the frequency of reporting on uncertainty in 21 countries.

Global Uncertainty on the Rise

Global EPU Index



COVID-19 Resurgence & U.S. Election

Worries increased through October and November about a global resurgence in COVID-19 cases and the outcome of the U.S. presidential election.

Greater clarity on containing the spread of the virus, limiting the global economic impact and starting a new presidential term are needed to soothe market volatility.

The Global EPU Index is a GDP-weighted average of national EPU indices for 21 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 10/1/2020. Source: "Measuring Economic Policy Uncertainty" by Scott R. Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com.

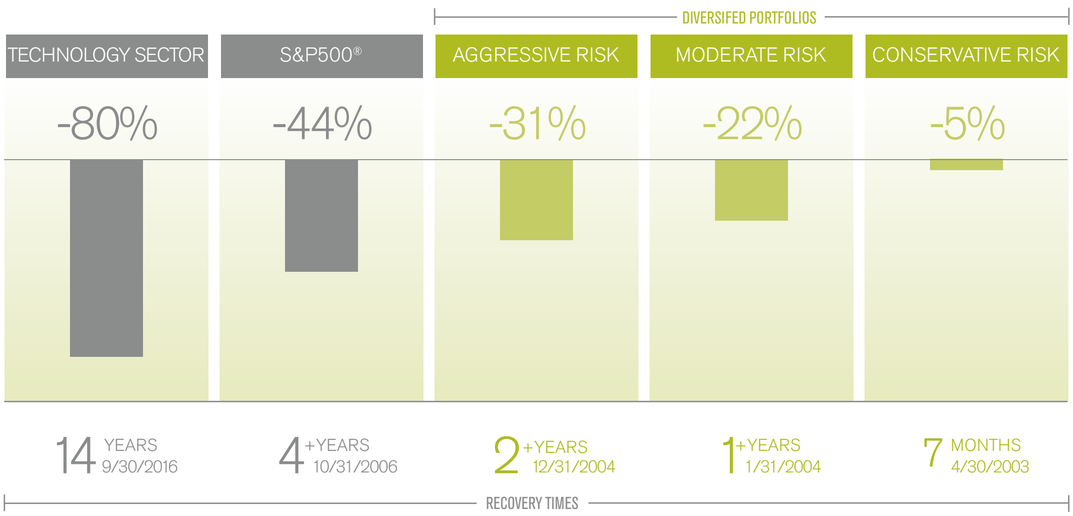
Chicken Soup for the Portfolio: Diversification

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 runup 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

When uncertainty is 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 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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