Flash Market Commentary

The last few market trading sessions have shown a spike in volatility as both stocks and bonds attempt to digest the potential economic implications of the coronavirus, plus to some degree, in all likelihood, the 2020 Democratic presidential primary results so far. Since the latter has quite some time to go, with a variety of potential twists and turns on both "sides of the aisle", we believe it is probably better to focus on the coronavirus at this point.

Equity markets across the globe have sold off, some from very recent all-time highs, while bond prices have actually surged as interest rates have declined; in essence a "flight to safety". At this point, the full economic implication of this health situation remains largely unknown. Initially the infections, and sadly the related deaths, were focused in China, particularly in the Hubei province, although there were additional cases elsewhere in mainland China. In addition to the critically important and tragic human issues, the initial financial market impact focused on the fact that since the SARS outbreak in 2003, China has grown from 4% to 17% of global GDP. That being said, the dynamics of these two diseases are also quite different, as the coronavirus has a much longer, asymptomatic, 14 day incubation period, with a lower fatality rate of approximately 3% versus 10% for SARS. What has primarily worried the markets over the last few days in particular, is that just as the daily growth rate of infections was moderating somewhat in China, new cases rose considerably elsewhere, with notable increases recorded in South Korea, Iran and Italy. Although none of these newer locations have posted large numbers per se, the fear surrounds the potential for growth. What the markets are basically looking for is a slowdown, and in effect a "bottoming" of the growth rate in daily new infections.

What will exactly happen going forward from a medical perspective is anyone's guess, however the last several potential pandemics have shown a tendency to decline as warmer weather has materially impacted the sustainability of the virus itself. From a financial standpoint, bonds, including U.S. Treasuries have typically outperformed stocks immediately after the initial outbreak, with equities regaining their footing and typically outperforming bonds in the subsequent three to six months. Please be assured that we are keeping abreast of this situation, along with other topics potentially impacting our clients' portfolios. As always, it is usually better to focus on the long-term versus getting overly caught up in the short-term. However, if you have any questions or concerns at any time, please don't hesitate to contact your Portfolio Manager.

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