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GLOBAL IMPACT FROM THE CORONAVIRUS OUTBREAK

Recent market action has brought elevated volatility and moved the broad market into correction territory on fears surrounding the coronavirus. As such, we have prepared this commentary to provide an update on the state of the market, the spread of the virus, and what investors should expect going forward.

In January, we saw volatility tick up due to global concerns around the Coronavirus. Stocks went back into rally mode in early February as investors' concerns were quelled largely by a slowing in new cases of the Coronavirus. The Standard & Poor's 500 Index hit a new all-time high on February 19th, before coronavirus fears came back into headlines and pushing markets lower for the rest of the week. Monday and Tuesday selling erased the gains for the year pushing the index negative, while the 10-year Treasury yield has dropped to 1.33% as investors flock to safe haven assets.

Coronavirus fears have largely been stoked by the World Health Organization's (WHO) latest report released on Wednesday. The report shows that the coronavirus is spreading further in Asia (South Korea), Europe (Italy), and the Mediterranean (Iran and Bahrain). Couple this with an overnight confirmation from the Center for Disease Control and Prevention (CDC) that the United States has experienced our first case of coronavirus from unknown origin (also known as "community spread") and their warning that the disease will likely cause a pandemic, and selling has continued into the week.

In the short-term, the spread of the disease raises the potential risk to global economic growth and corporate earnings. Demand and supply for goods and services are being affected. On the supply side, closed factories and reduced manufacturing in China effects products and services in the early stages of the supply chain for multi-national companies worldwide. On the demand side, consumption can be reduced not only by China as the second largest economy, but many countries could see a pullback in travel, tourism and other activities.

The long-term effect of the virus is a more challenging unknown. The virus may delay a recovery in manufacturing and business spending. To combat risk of viruses, global manufacturers will likely source material from a wider geographic area, so additional outbreaks will have a lesser effect on the ability to produce goods.

In preparation of market volatility surrounding the coronavirus:

1) Investors should remember that the stock market reacts swiftly to news and headlines, so they should be prepared for big swings—in either direction.

2) Investors should be aware that while the CDC has indicated that they are a few weeks away from human trials of a vaccine, there is no immediate timeline for containing the virus. So volatility may persist for the short-term. The longer this virus lasts, the greater the impact may be, so we are closely monitoring the situation.

3) Investors should remember that if the virus persists, governments and central banks will likely take measures to prevent financial difficulties from spreading throughout the economy. Central banks can take measures to ease monetary policy by cutting rates or infusing banks with cash and governments can adjust regulations and laws.

Remember that earnings and fundamentals, not headlines, drive markets over the long term. Equity markets are resilient. Since 1981, there have been a dozen major viral outbreaks. In only two of these instances was the Standard and Poor's 500 Index negative in the following twelve months; and in both instances there were economic conditions working against the market outside of a viral outbreak (a recession during the 1981 AIDS outbreak and a collapse in commodity prices putting pressure on the energy sector during the 2014-2015 Measles outbreak).

Epidemic	Month end	6-month % change of S&P	12-month % change of S&P
HIV/AIDS	June 1981	-0.3	-16.5
Pneumonic plague	September 1994	8.2	26.3
SARS	April 2003	14.59	20.76
Avian flu	June 2006	11.66	18.36
Dengue Fever	September 2006	6.36	14.29
Swine flu	April 2009	18.72	35.96
Cholera	November 2010	13.95	5.63
MERS	May 2013	10.74	17.96
Ebola	March 2014	5.34	10.44
Measles/Rubeola	December 2014	0.20	-0.73
Zika	January 2016	12.03	17.45
Measles/Rubeola	June 2019	9.82%	N/A
			—Source: Dow Jones Market Data

Remember, the average intra-year decline for markets over the last 40 years is 13.8%. This means that on average, at some point in time during the calendar year, markets are down 13.8%. After a 30% return for markets in 2019, and relatively little volatility in recent years, we all need to keep a market correction in perspective.

Portfolios are constructed based on investors' goals, risk tolerance, objectives, and long-term financial plan. Investors should not make substantive changes to their overall financial plan in response to short-term market conditions. With that being said, we continue to monitor the coronavirus situation and market conditions and where and when appropriate will rebalance and derisk for clients as conditions warrant.

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Data sources: https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200226-sitrep-37-covid-19.pdf?sfvrsn=6126c0a4_2

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https://www.marketwatch.com/story/heres-how-the-stock-market-has-performed-during-past-viral-outbreaks-as-chinas-coronavirus-spreads-2020-01-22

JPMorgan, *Guide to the Markets*, 12/31/2019

News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations.