Special Outlook - Coronavirus & the Markets

In our last monthly *Outlook,* we presented a view of the impact of the coronavirus that was relatively benign, and was based on the best information available at the time. Unfortunately, given the peculiarities of the way China reports information to the outside world, "best" information is not necessarily "good" information. It is now clear that the magnitude of the outbreak in China was worse than we were originally told. It has also been reported that the virus has spread to South Korea and Europe.

The markets barely acknowledged the outbreak in its early stages, but have weakened recently as reports of the virus' spread have increased. Yesterday's drop of 3.5% was not out of line, but even a modest recovery today would have been encouraging. Instead, the market opened strong, but is again down >500 points at 2:00.

Obviously, this is not just an economic or market event that can be analyzed and quantified objectively as we would recession probabilities or earnings shortfalls. Headlines using terms like "epidemic" or "pandemic" are bound to create fear. We are not epidemiologists or medical professionals, but we must nevertheless use our best judgment based on the best information we have at any point in time. Based on what is now known, we would offer the following:

- It is true that the number of cases was initially under-reported, but more recent reports indicate that the rate of spread within China appears to be decelerating. Less than 2% of active cases have shown to be fatal, but it is too early to predict the eventual outcome of the majority of active cases.

- The news will likely continue to be bad as the virus spreads globally, and it would be naïve to believe that the U.S. will be spared. But it is reasonable to expect that containment of the virus will be more rapid and successful (and more accurately reported) in the developed economies of Europe & North America, with their more advanced health care systems.

- The economic impact on the global economy will likely be significant, and some major countries were teetering on the edge of recession even before the outbreak. But the consensus is that this is most likely a 1-2 quarter event, and the global recovery that was forecast for the 2nd half of 2020 will likely be pushed out to the first half of 2021.

- Before yesterday's sell-off, the U.S. market was 26% higher than it was a year ago, so a correction was a growing possibility under any circumstances. Under these circumstances, the current sell-off could be considered mild, so far. Consider that Apple, which sources 70% of its products in China, is down less than 8% from its high, and remains 70% above where it was a year ago.

- It is likely that the current sell-off will continue, and it is too early to use the current weakness as a buying opportunity. But based on our assumption that this is a significant but short term event, we would advise clients not to abandon long term strategies, and look for opportunities to add to positions over the next couple quarters.

We will remain diligent in continuing to assess this situation as it evolves, and we will not hesitate to change our perspective if the facts warrant such a change. Please don't hesitate to reach out to us if you have any further questions or concerns.

Joseph J. Tascone
Senior Vice President
Senior Investment Officer