## Coronavirus and Market Volatility

Stock markets don't like uncertainty; last week the coronavirus COVID-19 outbreak and pandemic fears provided just that. As many countries work to contain the virus, the risk is an immediate decline in global GDP as consumer confidence falls and individuals stay home and spend less. The global supply chain of goods has been impacted by slowing manufacturing in China and Asia in general, which has made it more difficult for companies dependent upon imports from those countries to receive the products they need.

The stock market soared in 2019 with the help of an overly accommodative Federal Reserve. It was the second best year for the S&P 500 over the last 20 years, but stocks became more expensive and overvalued as the index marched to new highs. Global investors were already on edge as expensive markets are widely susceptible to uncertainty and bouts of market volatility.

The US stock market started 2020 off strongly, until last week when fear that the coronavirus would spread beyond China became a reality. This last week, the U.S. stock market gave up its year-to-date gains as the S&P 500 Index dropped 11.4% for the week and 8.3% year-to-date through 2/28/2020. Fixed income (as measured by the Barclay's US Aggregate Bond Index) and commodities (as measured by the S&P GSCI Gold index), which tend to do well in market declines, returned 1.3% and -5.0% respectively for the week-to-date, and 3.8% and 2.7% for the year-to-date periods, respectively.

The S&P 500 Index roared back today (up 4.6%) on the possibility of Central Bank intervention. Whether today's gains will continue or are short lived, is yet to be seen.

Historically, we know that not every correction deteriorates into a bear market. During the 23 corrections experienced since World War II, the average price drop of the S&P 500 has been 14% and the drawdown has lasted 4.4 months. Although the possibility of a global recession is ever present, we believe that fear and uncertainty are primarily responsible for the current volatility and rapid market declines.

Whether the virus will spread more widely, or be contained within weeks, is currently just speculation. If the virus continues to spread, it may have a negative impact not only on the Chinese economy, the country where the virus originated, but also on the global economy in general.

The impact of two other recent global health crises on global markets, SARS in 2003 and Ebola in 2014, were short lived because both outbreaks were contained within a few months. Hopefully, this coronavirus will be equally as short-lived.

Towneley cannot determine the ultimate course that the coronavirus will take or how the markets are going to respond. But historically, the more violent and sudden the markets dropped, the sooner recovery began.

Unless there are changes to your health or financial situation which would require near-term liquidity that you have not yet informed us of, we recommend you stay the course. Our asset allocation and diversification strategies are designed to help you weather uncertain times, like the one we are facing now. We will continue to monitor the situation and client portfolios, and to adjust our strategy should conditions warrant.