



## Coronavirus (COVID-19)

This week the U. S. and global stock markets declined into correction territory (-10%). Declines were set off by the increasing concerns around the Coronavirus and its impact of lives, health, and the economic environment around the Globe.

In a flight to safety U.S. Government Bond yields in the US have declined and the yield curve has inverted with the 3 month interest rate above the 10 year rate. The 10 year has surpassed lows last seen in the temper tantrum of 2016. (1.30%), the 30 year Government bond rate sits at 1.79%.

After a very strong return year in 2019 (S&P 500 up 31.5%), the average PE multiples (on large cap stocks in particular) were above long term averages. So going into this period stocks were vulnerable to corrections, based on multiples. The fear of the virus spreading and its economic implications were enough to cause a spike in volatility and a quick and large downward trajectory.

We are seeing a lot of guesses on the total impact caused by the coronavirus, and it will take some time to see concrete facts around the full economic impact caused by the disruption to global supply chains, demand, consumer expenditures and company earnings. While the shape and timing of a recovery from the current situation may be difficult to predict. In looking at other declared global health crisis of the past, such as SARS, Mers, Swine Flu, Ebola or Zika, the market reactions were very similar to what we are seeing today and when those pandemic fears lessened we saw a quick rebound in the markets. With average market recoveries within a month to three months as GDP rebounded due to increases from restocking, production and demand.

In addition, Bond Futures are now predicting a much higher probability that the Federal Reserve will reduce interest rates several times in 2020, to combat the current problems. This Fed "put" has over the last decade also contributed to market rebounds.

It is difficult to watch the market drop so precipitously, but we believe that there is no need to make major changes. We have seen these periods before. We believe that clients should stay the course.

As always please let us know of any questions. We will continue our review of conditions and will update you as any new news is available.

A handwritten signature in black ink that reads "John DeMario".

John DeMario  
President and CEO

A handwritten signature in black ink that reads "Vanessa Vargas Guijarro".

Vanessa Vargas Guijarro  
Senior Consultant