CETERA® INVESTMENT MANAGEMENT

COMMENTARY

02/26/2020

Virus Concerns Shake Global Markets

- U.S. equities have fallen for four-straight trading sessions
- Investors remain concerned about human life and economic impact
- Central banks offer some potential downside protection

Equity markets around the world continue to weaken on concerns around its potential impact to the global economy. The S&P 500 has fallen for four-straight trading sessions and is now down more than 3% this year and more than 7% from its February 19 all-time high. Moreover, stocks fell by more than 3% in back-to-back sessions for the first time since August 2015. While we could not have predicted such an event, we have been cautious towards equities given their lofty valuations coming into 2020. With so many uncertainties surrounding the spread of this virus, we believe more equity market weakness is possible. However, this downside could be limited as global central banks are able to extend their ultra-easy monetary policies and the U.S. economy and consumer remain in good shape. We don't recommend betting on one single outcome and warn about being too optimistic or too pessimistic. Regardless of investor reaction, we continue to expect market volatility to remain elevated.

Since the coronavirus first appeared in China in late 2019, the number of confirmed cases and death toll have steadily risen. At first, equity markets shrugged off this news as it seemed localized to a province in China and any impact on the global economy would be similar to past virus outbreaks resulting in a V-shaped recovery where economic weakness is followed by a sharp recovery. Unfortunately, the virus in China has remained longer than most anticipated. Though the spread of the virus appears to be slowing in China, investors became concerned when outbreaks emerged in other areas of the world including Korea, Italy, Japan, and Iran. This concern pressured global equity markets and was further exacerbated when the Centers for Disease Control and Prevention (CDC) said that it expects a wider spread of the virus in the U.S. and is preparing for a potential pandemic. This news contributed to the worst two-day decline in the S&P 500 in four years.

The coronavirus comes at a time when stocks were already trading near 15-year highs in price-to-earnings ratios. U.S. economic data had been improving, but earnings estimates were still pedestrian. Many, including us, were positioning portfolios relatively cautiously in case of a midcycle correction. Nothing could seem to shake the market momentum and investor sentiment. Even the initial news of the virus and possible supply-side disruptions from Chinese manufacturers could not change the optimistic tide. While no one knows how this will ultimately disrupt economies and supply chains, the virus creates uncertainty about future growth levels. Now that the virus has spread to other nations, equity investors are reacting. To put things in perspective, the S&P rose over 30% in 2019 with relatively flat earnings growth. After the recent selloff, the S&P 500 is down over 3% in 2020.

Though the impact on human life is at the forefront of everyone's concerns, there are many uncertainties surrounding the potential impact of the virus to the global economy. The global economy was already fragile from the nearly two-year-long U.S.-China trade war and the spreading virus will likely impact economic growth. While more equity market weakness is possible as the virus continues to grow globally, the downside could be limited as governments and global central banks have possible tools to combat the potential death toll and economic impact.

From the human life perspective, China took severe steps to limit the spread of the virus including forced quarantines, limited social contact, and significant population testing. We expect other inflicted nations to follow suit. From an economic perspective, global central banks including the People's Bank of China and the Bank of Korea have already increased monetary stimulus or plan to do so. As we have seen in the U.S., and, specifically the U.S. housing market, over the past year, easing monetary policy can provide a potential economic stopgap. Furthermore, in the U.S., given unemployment levels near 50-year lows, the consumer, the driver of the current economic expansion, remains in good shape. We do expect market uncertainty to continue but downside may be limited. The impact to markets will not be equal either. Sectors related to travel, such as cruise lines, airlines, and hotels are already taking a hit. Online entertainment companies and streaming services are performing better.

We expect volatility to continue to remain elevated as news related to the virus increases and investors assess the impact to world economies. Being diversified is very important as bond yields are very low, valuations are coming off higher levels, and news around the virus continues to weigh on investors' minds. We recommend you continue to work with your Financial Professional to review your individual goals and objectives.

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Glossary

The **S&P 500 is an index** of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe

The **MSCI All-Country World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The SMCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The **MSCI EAFE** is designed to measure large and mid cap equity market performance of 21 developed markets, including three regions (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted, covering 85% of the free float-adjusted market cap in each of the 21 countries.

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