Economic Impact of the Coronavirus

Over the last week, concerns about the coronavirus have increased dramatically as new infections reported around the world surpassed those in China. According to the WHO, the virus has primarily impacted China, with roughly 80,000 infections and 2,800 deaths. More recently, the virus has spread to another 46 countries, where about 3,700 cases and 57 deaths have been reported. These are alarming numbers and our hearts go out to all those impacted. It is still far too early to know when the virus will be contained, but fortunately mortality rates are far lower than other virus outbreaks and we've seen governments, healthcare organizations and pharmaceutical companies are all taking the situation seriously and working together on solutions.

It is clear that this virus will have a negative economic impact on worldwide growth, particularly in Asia. Initially, international equity markets took the brunt of the volatility, but as US companies have started to lower sales and earnings guidance, US stocks have started to play catch-up. This has led to a 15% sell-off in the S&P 500 over the last week and the first decline of 10% or more in almost two years. As investors look for relative safety, U.S. Treasuries and other high quality bonds have rallied – with the 10-year U.S. Treasury bond yield falling below 1.15% for the first time in history.

As with other market risks over the past 10 years (trade wars, slow growth, EU political uncertainty, etc.), we expect another round of rate cuts and other stimulative measures by central banks globally. This will reduce funding pressures and improve pricing for long-dated assets. We do not think these measures alone will make markets turn around, but it will temper the downside.

We understand market corrections are unnerving, but they are not uncommon and they help remove speculative market behaviors. Historically, there has been a 10% pullback in equities every 1.7 years[1], with most occurring during a prolonged bull market. In fact, we experienced two market corrections in 2018, which in part, led to the strong returns we saw in 2019.

At this time, we do not expect to make any major changes to our investment strategy as a result of the coronavirus. As many of our long-standing clients know, we have been actively trimming large technology positions over the last 2-3 years, which have been particularly hard hit over the last week, due to sizing and valuation. For accounts that are underweight in equities, we will likely use this correction as an opportunity to build long-term positions at more reasonable valuations. Most importantly, we will continue to have a large part of the portfolio invested in high-quality fixed income for short-intermediate cash needs and focus risk assets in high-quality businesses with strong balance sheets that are well capitalized to withstand disruptions in sales or their supply chains.

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[1] https://www.wesmoss.com/news/understanding-market-corrections-frequency-length-recovery-time-and-depth/

We will continue to monitor the situation and send additional correspondence if our view changes, and as always, we would be happy to review your portfolios and walk through your holdings in detail.

Contact Us

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