DERMANN & SMITH
PERSONAL WEALTH MANAGEMENT LLC
Independent Practice

535 Wellington Way, Suite 260 Lexington, KY 40503 Phone (859) 252-2780 Toll Free (877) 252-2780 Fax (859) 252-2740 www.DermannSmith.com

Stocks See Red as Coronavirus Fears Persist

For the equity markets, volatility took investors on quite the ride – particularly during the last week of February, as coronavirus dominated the headlines. Raymond James Healthcare Analyst Chris Meekins believes volatility will likely be the norm until short-term fears subside. The uncertainty seems to have prompted investors to seek safety in more traditional defensive assets, causing bond yields to fall, explained Chief Investment Officer Larry Adam. Election primaries are underway across the nation as well, but the market seems to be ignoring political headlines for now, added Ed Mills, Washington policy analyst.

China now accounts for a fifth of the world's economy, more so than when SARS hit in 2003, and recent travel restrictions due to the spread of COVID-19 have spurred a decline in global tourism, according to Chief Economist Scott Brown. We're also seeing loss of sales for U.S. firms as well as curtailed output in Japan and South Korea.

For the month, the S&P 500 ended down 8.4%, while the DJIA and NASDAQ declined 10% and 6.4%, respectively. The Russell 2000 returned -8.5%.

	12/31/19 Close	2/28/20 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	28,538.44	25,409.36	-3,129.08	-10.96%
NASDAQ	8,972.61	8,567.37	-405.24	-4.52%
S&P 500	3,230.78	2,954.22	-276.56	-8.56%
MSCI EAFE	2,036.96	1,867.64	-169.32	-8.31%
Russell 2000	1,668.47	1,476.43	-192.04	-11.51%
Bloomberg Barclays Aggregate Bond	2,225.00	2,292.49	+67.49	+3.03%

Performance reflects price returns as of market close on February 28, 2020.

Here is a look at some key factors we are watching, both here and abroad:

Economy

- U.S. data reports have suggested a mixed, but moderate pace of growth in early 2020, with some benefit from unseasonably mild weather, according to Chief Economist Scott Brown. Consumer spending should remain supported by solid fundamentals (e.g., job growth and wage gains), but increased uncertainty could undermine business investment over the near term, he added.
- If the virus spreads widely across the U.S., the economic impact would be temporary but potentially severe. We believe recovery would take months instead of weeks.
- Until recently, Federal Reserve officials had maintained that the stance of monetary policy remains adequate. Chair Jerome Powell issued a statement on February 28 noting that, while the fundamentals of the U.S. economy remain strong, "The coronavirus poses evolving risks to economic activity." The Fed is now expected to lower short-term interest rates at the March 17-18 policy meeting.

Equities

- Cyclical sectors with the largest exposure to China (e.g., Energy and Industrials) were some of the hardest hit, while defensive sectors like Real Estate and Utilities fared better, explained Chief Investment Officer Larry Adam.
- Will investors view the impact on earnings as a temporary setback or as a reason to lower valuations? Mike Gibbs, managing director of Equity Portfolio & Technical Strategy, leans toward the former. "We are not willing to punish healthy business models for missed earnings due to a temporary event," he explains, as the situation is different from earnings weakness due to deteriorating business models or missteps by management.

International

- Global equity markets declined in February, although unsurprisingly fixed income markets sharply rallied – said European Strategist Chris Bailey.
- Concerns remain about the virus's potential impact on international supply chains, as pockets of outbreaks pop up outside China, although progress is being made in China to contain the spread, he noted.

Fixed income

- As mentioned briefly above, bond markets have rallied, hastened by coronavirus uncertainty. Treasury bonds climbed significantly, bringing yields down, according to Doug Drabik, managing director for fixed income research. Both the 10- and 30-year Treasury yields have reached historical lows.
- Central banks may be forced to engage in deeper accommodative actions. Should the world's central banks pump even more money into the system, it may keep rates in a downward trajectory going forward, Drabik added.

Bottom line

- The markets can easily distract investors from disciplined investing, but we want to remind all our valued clients that we believe maintaining the appropriate asset allocation is even more important during bouts of volatility.
- The right balance is intended to provide ballast to your portfolio in times of uncertainty and allow you to participate in the eventual rally.
- Valuations are closer to their five-year averages, and market movements, such as the ones we've seen in recent weeks, go on to produce positive forward returns more often than not, explains Gibbs.

Should anything change, I'll be sure to keep you updated on anything that could affect your long-term financial plan. Thank you for your trust in me.

Sincerely,

Amy Smith Harper, CFP®
Financial Advisor, RJFS