Parkside Financial
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## Coronavirus (COVID-19) — February 26, 2020

### OVERVIEW

- **Though the spread of the virus appears to be declining in China, it is showing no signs of slowing down across the globe.**
- **Reported cases have exceeded 80,000 and fatalities have surpassed 2,700.**
- **US Health officials expect a wider spread domestically, while Japan, Italy, South Korea, and Iran are materially affected already.**

#### Market Reaction to Latest News

Though COVID-19 has been widely known since the middle of January, investor complacency was evident until the recent news of its spread outside of China caused shocks in the investment world.

The S&P 500 Index declined 7.6% through February 25 from the all-time high set on February 19. Broad global equity benchmarks experienced similar weakness. The MSCI EAFE Index was down 4.9%, MSCI Emerging Markets Index declined 4.3%, and Nymex Oil fell 6.4%.

Asset classes that provided ballast during the equity market sell-off include traditional safe-havens such as US Treasuries and Gold. The 10-year US Treasury bond yield reached an all-time low of 1.31% (closing at 1.35%), down from 1.57% as of February 19 Gold appreciated 2.4% over the same period.

| | Feb 19 Close | Feb 25 Close | Change |
|---|---|---|---|
| S&P 500 | 3386.2 | 3128.2 | -7.6% |
| MSCI EAFE | 2018.5 | 1918.6 | -4.9% |
| MSCI Emerging Markets | 1103.7 | 1056.5 | -4.3% |
| Nymex Oil | 53.3 | 49.9 | -6.4% |
| Gold | 1611.8 | 1650.0 | 2.4% |
| US 10-Year | 1.57% | 1.35% | -0.2% |

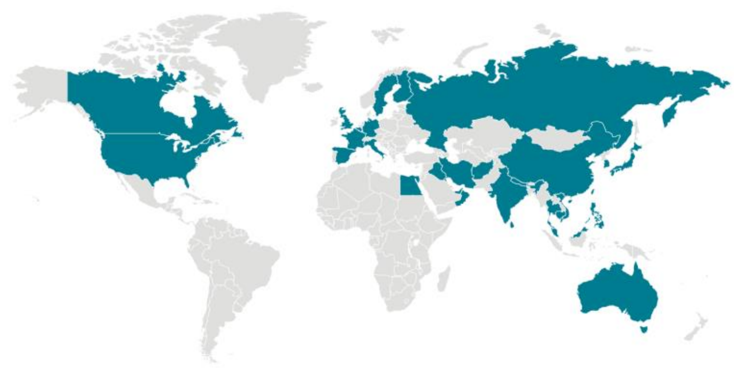
Source: Bloomberg

#### Economic Impact Based on Market Reaction

The predominant economic concern is the impact on global growth as effort and resources are committed to curtailing the spread of the virus. Resulting supply chain disruptions create concern for manufacturing businesses, while consumer decisions to "stay home" hamper service-related sectors and have already led to widespread travel cancellations.

Although impacts to the real economy may prove short-lived, uncertainty surrounding the ability to contain the virus has clearly resulted in increased market volatility. Market drops such as those witnessed in recent days are known to be an unavoidable feature of investing and may persist until the coronavirus has fully run its course. Of note, the widespread belief that equity valuations had been stretched presumably enhanced the market's downside vulnerability.

**Locations with Confirmed COVID-19 Cases**



Source: CDC, WHO

#### Expectations and Plans Moving Forward

Historically, the number of confirmed cases in comparable epidemics typically has risen sharply for 8 to 10 weeks before peaking out. While COVID-19 is likely to be declared a "pandemic," this is in recognition of its global impact rather than a statement on its severity. Mortality outcomes across demographics vary widely, and the US expects to begin human trials on a vaccine within six weeks.

It will be important to watch monetary and fiscal policy responses, with stimulus already taking place in China and expectations rising for others to act. The market is now discounting at least two 25 bps rate cuts by the US Federal Reserve under the assumption of weaker economic conditions. While the true efficacy of such action could be questioned, markets have responded well to such prescriptions in recent years.

#### Investment Implications

With the current bull market in its 11th year, it is always difficult to determine what the catalyst will be for the next correction or bear market, the "unknown unknown." Governments around the world, particularly in Asia, will want to curtail the spread of the virus as soon as possible to guard against any further negative economic impact.

Trying to predict when the outbreak will be contained and markets will rebound is an exercise in futility. Instead, broad portfolio diversification is a tried and tested approach to maintain market exposure for whenever the rebound occurs while avoiding the downside of an all-equity portfolio.