Chart of the Month

February 2020

The coronavirus, now named COVID-19, has been dominating world news of late.

According to the National Health Commission, China has reported 75,465 cases and 2,236 deaths as of February 20. Outside of China, there have been 1,152 cases across 26 countries, including eight fatalities. Only a handful of cases have been identified in the U.S., limiting the health and economic impact in this country thus far.

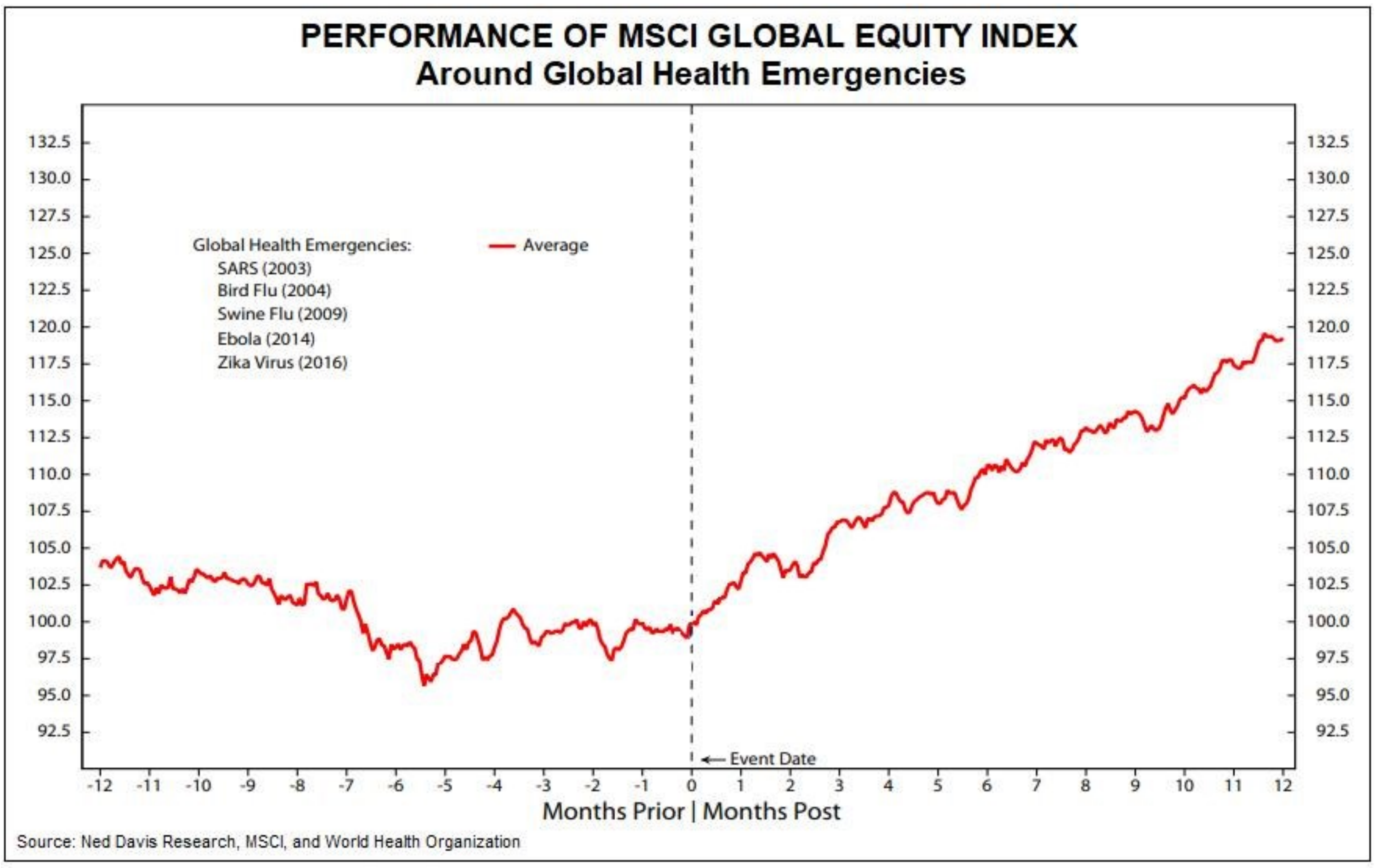
The financial markets appear to be responding on almost a daily basis to reports of whether the epidemic is accelerating or decelerating. While caution is the order of the day, there is little or no need for investors to take action if their portfolios are diversified and aligned with their long-term plan. We will remain opportunistic by using swings in either direction to rebalance stock and bond weightings.

To date, the bond market has reacted more strongly than the stock market to the coronavirus. The yield on the 10-year Treasury plunged more than 40 basis points (0.40%) in January and has fallen further in February to its current level of 1.47%. The 30-year yield is at an all-time low of 1.92% as risk-averse investors seek safety.

Stocks, meanwhile, have been climbing the “walls of worry” over the past year, including fears regarding a trade war with China in 2019 plus a potential conflict with Iran and the coronavirus in early 2020. Since January 30, when the World Health Organization (WHO) declared COVID-19 as a global health threat, the S&P 500 has hit new highs (before retreating slightly over the past two days) and the MSCI All-Country World Index is up 1%.

As shown in the chart below, the stock market has historically bottomed right around the time of the WHO announcements on global health emergencies (such as SARS in 2003, bird flu in 2004, swine flu in 2009, Ebola in 2014, and Zika virus in 2016) and worked its way higher over the following year. The average returns, in fact, have been approximately 7%, 10%, and 19% over the ensuing three, six, and twelve months.

While past performance is no guarantee of future results, we share these historical outcomes to suggest that *epidemics* have not been a reason to sell stocks in the past and to provide a perspective that sometimes can be lost in the midst of a challenging environment. The primary risk is that the coronavirus turns into a full-blown *pandemic* with a magnitude much greater than the infectious diseases listed above.



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