Update regarding the coronavirus impact on global markets

Global markets have been roiled in the past few days, over fears surrounding the worldwide spread of COVID-19, aka the coronavirus. With coronavirus cases confirmed on all continents (except Antarctica), investors are alarmed by the alacrity with which the disease has spread. Thursday's drop in the S&P500 was the biggest one-day loss since the Great Recession in 2008 and markets have officially entered correction territory, after the five-day selloff. The speed and extent of the spread are certainly alarming and not to be discounted, yet the total number of cases and deaths pales in comparison to the ordinary flu that we experience every year and the fatality rates, as of yet, appear to be much lower than with past global epidemics such as SARS, MERS or Ebola.

The meltdown that we are seeing is entirely fear driven and not reflective of the underlying economic conditions. While companies have been revising their forward earnings guidance lower, to reflect impacts on supply chain, labor availability, productivity and consumer spending from the virus, the US remains a) largely unaffected from the outbreak so far and b) in fairly robust shape, economically. Similarly, central bankers worldwide have expressed willingness to use monetary policy to restore confidence and support economic conditions, if needed.

Though the market action that we're seeing is reminiscent of 2008-09, the comparisons end there; banks are not failing, unemployment is not going to 10% and while global growth may temporarily slow, this appears to be a short-term disruption, not a full-blown recessionary event. It is also a symptom of the longest bull market run in equities ever; as we saw in late 2018, a catalyst for an overdue correction was delivered swiftly and unexpectedly, with stomach-churning velocity, yet the market stabilized after a more reasoned reassessment.

As we've reiterated time after time, our approach is a long-term one, focused on meeting long-term financial goals; it is unbelievably constructive to remain focused on that time horizon and not get caught up in short-term events and the constant news churn. At the outset of the month we, somewhat fortuitously, decreased our equity exposure and have cash on hand (though perhaps in hindsight, not as much as we would like) and view this pullback as a cautious opportunity. Yesterday, the S&P 500 passed below its 200-day moving average and any reversion back above that level is a strong buy signal, which we will be monitoring closely.

While we admittedly did not anticipate the pace, nor severity with which this selloff has occurred, we have several stocks on our radar whose valuations are quite appealing, given the recent dip and still view the equity markets as the most attractive source of long-term returns for the portfolio.

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