Ginsburg Financial Advisors, Inc.
Personal Financial Planning & Investment Management
Larry P. Ginsburg, CFP® **Adele Ostomel, CFP®**

phone: **(510) 339-3933**
fax: (510) 339-1611
LGinsburg@GinsburgAdvisors.com
AOstomel@GinsburgAdvisors.com
www.ginsburgadvisors.com

Why Are The Financial Markets Falling?

What Should You Do Now?

What Happened and Why?

Global stock markets have been in free fall this week due to the spread of the coronavirus ("COVID-19") and plunging oil prices. Investors are acutely concerned over the lack of a coherent strategy from the Trump administration regarding how it plans to contain COVID-19 while also providing fiscal policy support (financial stimulus) to the economy. We expect the financial markets will stabilize over the near-term as the Trump administration officially reveals its plan to combat the health and financial ramifications of COVID-19 and as testing substantially ramps up in the U.S.

While economic activity globally and in the U.S. will contract during the first half of this year, we anticipate a sharp rebound in economic growth once COVID-19 is fully contained over the coming months. We also expect a sharp recovery in stock prices in anticipation of a resumption in global economic growth and a recovery in corporate earnings growth upon tangible evidence that containment efforts within the U.S. and other key economies have slowed the progression of COVID-19.

What Happened in the Stock Market?

The longest "Bull" (rising) U.S. Stock Market in history has officially ended. We did not know when this would occur, but expected it would eventually happen. The positive results for the S&P 500 Index for the past decade (as of December 31, 2019) were 35% higher per year than the long-term historical averages. We anticipated that this period of high returns would eventually end. As a result, after the third quarter of 2019, we generally reduced exposure to stocks for our clients and increased concentration in bonds.

The S&P 500 Index closed down 9.49% for the day on March 12, its biggest daily drop since the stock market crashed in 1987, on what came to be known as "Black Monday." We are officially now in a "Bear Market," which reflects a 20% or greater decline in the stock market from its most recent peak.

The financial markets respond favorably to facts and certainty. The poor initial response by the President and his administration served to increase uncertainty, rather than to provide facts and calm investor concerns. The financial markets respond to such uncertainty and investor anxiety by selling and driving prices lower. It is expected that Congress will pass legislation soon and the President will sign it to begin delivering a response by our government based on science. This should calm the markets and allow us a positive path forward.

The speed at which stock markets have dropped leads us to expect a similar rebound in prices when the market gains comfort in the global containment of COVID-19. This is due to the health of the U.S. economy prior to the COVID-19 outbreak and the significant amount of monetary and fiscal policy support that has and will be enacted. The oil price war between Saudi Arabia and Russia will further help promote economic growth while also triggering another wave of defaults and consolidation within the U.S. oil drilling sector. Thus, while the U.S. economy may fall into a recession (defined as two sequential quarters of negative economic growth), it will likely be shallow and last only a couple of quarters. Since stock markets are “forward-looking mechanisms” (i.e. stock valuations reflect future expectations for corporate earnings and cash flow growth), new stock market cycles tend to begin during the recession phase of a prior business (economic) cycle.

Outlook for Bonds

Bonds have generally delivered positive results during this recent market volatility. We expect this trend to continue as global interest rates remain extraordinarily low for at least through the end of this year. The U.S. Federal Reserve (“Fed”) is not only expected to lower rates by another 50 basis points (one-half of one percent) by year-end, but it is also expected to reinitiate its bond buying program, also known as quantitative easing, over the coming months. We expect credit spreads (the difference in yields between U.S. Treasuries and non-government bonds such as corporate bonds) to remain wide as investors demand a higher premium for assuming more risk, whether it be a credit agency downgrade or bankruptcy. We continue to maintain a globally diversified portfolio of predominately investment grade (high quality) bonds.

Will This Affect the Distributions I Need to Take From my Portfolio?

Those clients taking cash distributions from their portfolios should know that we will continue to support the most efficient way to send money monthly. As we did during the 2000-2002 market correction and the financial crisis in 2008-2009, we will evaluate how best to make certain monthly distributions will be sent from assets that are not experiencing pricing volatility. Each of our client investment portfolios has no less than 20% in bonds; most had more than 40% in bonds at the end of last year. During these periods of market turbulence, we typically utilize bonds to generate monthly or quarterly portfolio distributions.

Please let us know if you have any questions regarding distributions from your investment portfolio.

COVID-19 Update

As March 13, global cases of COVID-19 were 134,577 and the fatality rate was 3.70% (worldometer). The following chart, which includes data compiled by worldometer, shows the fatality rate for the top five countries afflicted by COVID-19 as of March 13:

Country	Total Cases	Deaths	Fatality Rate
China	80,815	3,177	3.93%
Italy	15,113	1,016	6.72%
Iran	11,364	514	4.52%
S. Korea	7,979	71	0.89%
Spain	4,209	120	2.85%

What stands out in the chart above is South Korea's substantially lower fatality rate relative to the other highly afflicted countries. According to Neuberger Berman, South Korea's ability to control the spread of COVID-19 and subsequent low death rate can be attributed to the following factors:

- Substantially higher testing rates provides the ability to capture mild cases earlier
- Lower density of population and the effect on transmission rates
- Lower smoking rates versus global rates
- Most importantly, lower average age, which aides in severity of COVID-19 (Italy has highest population over age of 65 as percentage of total)

Unfortunately for the U.S., the Trump administration's dismissive view towards the seriousness of COVID-19 likely exacerbated the spread of the disease while leading to significant uncertainty in the financial markets. Through March 11, only 5,000 individuals have been tested for COVID-19 in the U.S. due to initial mistakes regarding quality control of test kits and a lack of authorization for state labs to test. By comparison, China and South Korea, which have largely contained the spread of COVID-19, have been administering 100,000 and 10,000 tests, **per day**, respectively (Centers for Disease Control and Prevention; Catalyst Funds). Furthermore, a potential shortage in (ribonucleic acid) RNA prep kits, which are needed to process patient samples, may hamper broader testing in the coming days/weeks.

We anticipate that the current financial market uncertainty regarding the true extent of the COVID-19 outbreak in the U.S. will subside as testing increases substantially. Even though mass testing will lead to a significant increase in the number of confirmed U.S. cases, it will provide clarity on the true fatality rate in the U.S. Currently, the U.S. fatality rate is 2.24% (worldometer). We expect this number to drop towards the rate experienced in South Korea as test kits become more broadly available and confirmed cases start to include more asymptomatic individuals.

It is important to note, experts do not expect the U.S. healthcare system to be overrun as more people are confirmed to have COVID-19. According to CDC (Centers for Disease Control) Director Tom Frieden, a worst-case scenario would be an infection rate of 50% of the US population over two or three years. Considering only the most susceptible patients within the U.S. and applying real life intensive care rates experienced globally, infers 333,000 patients would need hospital care if 50% of the US population is infected over the next 24 to 36 months. In spite of the poor initial response by the Trump administration, this worst-case scenario is unlikely to occur given capacity within the U.S. hospital system and measures taken to date within private industry and at the local level.

According to the American Hospital Association, there were 924,107 staffed hospital beds across the U.S. Assuming the 333,000 infected patients are evenly spread over 24 to 36 months, translates into 111,000 to 167,000 hospitalizations per year or only 12% to 18% of hospital bed utilization each year. Keep in mind these estimates are inflated since they do not exclude asymptomatic patients not needing medical care. The number of hospitalizations projected to occur each year may also be inhibited by actions to contain COVID-19 within private industry and by state/local communities. These include corporate travel limitations, company closures/remoting working, school closures, and the cancellation of large events (e.g. postponement of the MLB, NBA, and NHL seasons and the cancellation of the NCAA Basketball Tournament).

We are optimistic over the prospects for therapies that can be used to treat severely infected patients. Gilead’s Remdesivir, a broad-spectrum antiviral currently approved to treat the Ebola virus, has encouraging anecdotal patient response data. Results from a trial in severe COVID-19 patients in China are expected to be released in late-March/early-April. Remdesivir, if approved to treat COVID-19, could potentially be used in conjunction with another approved drug, Roche’s Acetermra, to control inflammation. The combination of these drugs or the potential use of generic chloroquine, which has shown both anti-viral and anti-inflammatory activity against COVID-19 (data expected to be available by year-end 2020), may serve as a bridge for the sickest patients until the development of a vaccine. Moderna Therapeutics appears the furthest along in the development of its novel messenger RNA vaccine. Moderna is expected to report data in healthy individuals in late April and final immunogenicity data (i.e. information showing the vaccine's ability to induce an immune response) by July. There are expectations within the investment community that this drug could be made available by the end of this year or early 2021.

Health experts within the investment industry expect COVID-19 infections to peak in the top five European countries by early-to-mid April and to peak in the US by late April-to-early May. Whether these estimates prove true or not depends on whether COVID-19 is a seasonal disease. If it does turn out to be seasonal, it can linger, albeit at a lower transmission rate, through the fall or possibly propagate via rolling clusters of cases through the end of this year.

What Should You do Now?

First, please take a deep breath! Try not to allow the dramatic fluctuations in the financial markets control your thoughts or mood. This market volatility is challenging to experience, but market fluctuations are part of the long-term process of investing successfully.

Next, think about your long-term goals. If they have changed, please let us know. If not, but you are concerned about your investment portfolio, please contact us. We are here to help you attain your goals and to assist you in making the best possible financial decisions. Now is not the time to let fear (False Evidence Appearing Real) drive decision making.

Lastly, understand that the experience of what's happening due to COVID-19 is new for most everyone. We are all in this together. After 9/11, people learned a new method of coping. We now need to recognize that this Coronavirus is new territory. Follow the scientific methods recommended to protect yourself and your loved ones as best you can.

We Want to Help You Attain Your Financial and Personal Goals!

The general information in this report is not intended to reflect our specific recommendations for any client portfolio. Please contact us with any questions to discuss your personal goals and your investment portfolio.

We invite you to visit our website at www.ginsburgadvisors.com. Here you will learn more about our services, value proposition, and our team. The site also has a useful

“Resources” section where you can access our previous market commentaries, watch informative videos, download our latest staff contact list, and access useful financial calculators and web links. Please be sure to check the site periodically as we will be updating the functionality of the site to include a client portal and other useful applications.

We welcome the opportunity to discuss your goals and the most appropriate strategy to help you attain them. We are also honored to speak to any of your friends, associates, or relatives should they have an interest in our financial planning or investment management services.