

Stock Market Update

February 28, 2020

S&P 500 2978

The logo for Baird, consisting of the word "BAIRD" in white, uppercase letters on a blue, parallelogram-shaped background.

Please refer to Appendix – Important Disclosures.

Breaking News

Follow-up Addressing the Recent Volatility and the Coronavirus

Stocks entered correction territory yesterday, down 10% over the past five trading sessions. Investors have been bombarded, and rightfully so, by headlines regarding the spread of the coronavirus. The headlines are important as we need to know everything we can about the spread and containment of the virus. This news is creating uncertainty and weighing on investor confidence, driving the stock markets further down. So far, the coronavirus has not been labeled a global pandemic and there is some evidence that the outbreaks of this virus in China are slowing.

Supply chain disruptions and much lower consumer demand in China and elsewhere will impact earnings this year. Companies don't know yet how big of a hit they will have to earnings. Many companies in the U.S. have lowered estimates to zero for the first quarter and we can expect to see lower earnings estimates for the rest of the year. However, should we begin to see a slowing and containment of this virus, businesses can rely on their existing inventories and earnings may rebound for the balance of the year. In spite of this upheaval, fundamentals in the U.S. economy are on solid ground.

From a technical perspective, momentum (speed of the change in prices of stocks) is weighted heavily to the downside. In volatile markets such as the one we are in, the strength of the rallies will signal when it is safe to enter the market. We need to see two days where upside volume exceeds downside volume by a ratio of ten-to-one or more. Until such time, we would encourage investors to be patient and not rush to buy until we have solid evidence that the decline has run its course. Historically, after a good bottom and subsequent rally the market normally retests the lows. On the retest there should be fewer stocks hitting new 52-week lows and investor sentiment is often negative suggesting from a contrary opinion perspective that sufficient cash has built on the sidelines to support a sustainable advance.

We don't know yet what central banks will do but they will likely, in a coordinated effort, infuse some liquidity into this market which should be helpful to the economy but they won't be able to make the virus go away.

Bottom Line: A stressful period in the stock market but stocks are moving quickly into an oversold condition, pessimism is rising and some signs of panic have surfaced with investors pulling \$22 billion out of stock funds and ETFs this week. The quality of the next rally will be important by providing solid evidence that the downside momentum has been broken.

Bruce Bittles

Chief Investment Strategist

bbittles@rwbaird.com

941-906-2830

Appendix – Important Disclosures and Analyst Certification

Analyst Certification

The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Disclaimers

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 and any other indices mentioned are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available. Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

United Kingdom (“UK”) disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds a MiFID passport.

The contents of this report may contain an "investment recommendation", as defined by the Market Abuse Regulation EU No 596/2014 ("MAR"). This report does not contain a "personal recommendation" or "investment advice", as defined by the Market in Financial Instruments Directive 2014/65/EU ("MiFID"). Please therefore be aware of the important disclosures outlined below. Unless otherwise stated, this report was completed and first disseminated at the date and time provided on the timestamp of the report. If you would like further information on dissemination times, please contact us. The views contained in this report: (i) do not necessarily correspond to, and may differ from, the views of Robert W. Baird Limited or any other entity within the Baird Group, in particular Robert W. Baird & Co. Incorporated; and (ii) may differ from the views of another individual of Robert W. Baird Limited.

This material is distributed in the UK and the European Economic Area (“EEA”) by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB and is authorized and regulated by the Financial Conduct Authority (“FCA”) in the UK.

For the purposes of the FCA requirements, this investment research report is classified as investment research and is objective. This material is only directed at and is only made available to persons in the EEA who would satisfy the criteria of being "Professional" investors under MiFID and to persons in the UK falling within Articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”). Accordingly, this document is intended only for persons regarded as investment professionals (or equivalent) and is not to be distributed to or passed onto any other person (such as persons who would be classified as Retail clients under MiFID).

All substantially material sources of the information contained in this report are disclosed. All sources of information in this report are reliable, but where there is any doubt as to reliability of a particular source, this is clearly indicated. There is no intention to update this report in future. Where, for any reason, an update is made, this will be made clear in writing on the research report. Such instances will be occasional only.

Investment involves risk. The price of securities may fluctuate and past performance is not indicative of future results. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. You are advised to exercise caution in relation to the research report. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Robert W. Baird Limited and Robert W. Baird & Co. Incorporated have in place organisational and administrative arrangements for the prevention, avoidance, and disclosure of conflicts of interest with respect to research recommendations. Robert W. Baird Limited's Conflicts of Interest Policy, available [here](#), outlines the approach Robert W. Baird Limited takes in relation to conflicts of interest and includes detail as to its procedures in place to identify, manage and control conflicts of interest. Robert W. Baird Limited and or one of its affiliates may be party to an agreement with the issuer that is the subject of this report relating to the provision of services of investment firms. Robert W. Baird & Co. Incorporated's policies and procedures are designed to identify and effectively manage conflicts of interest related to the preparation and content of research reports and to promote objective and reliable research that reflects the truly held opinions of research analysts. Robert W. Baird & Co. Incorporated's research analysts certify on a quarterly basis that such research reports accurately reflect their personal views.

This material is strictly confidential to the recipient and not intended for persons in jurisdictions where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such jurisdiction.

Robert W. Baird Limited is exempt from the requirement to hold an Australian financial services license and is regulated by the FCA under UK laws, which may differ from Australian laws. As such, this document has not been prepared in accordance with Australian laws.

Copyright 2020 Robert W. Baird & Co. Incorporated