

Stock Market Update

February 25, 2020

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Please refer to Appendix – Important Disclosures.

Breaking News

Addressing the Recent Volatility and the Coronavirus

Stocks attempted an early morning rally today which quickly failed leading to further selling pressure. Early morning rallies following a steep decline are often met with more selling so today's action is not far out of character.

The trigger for the weakness was news that the coronavirus is spreading to other countries and today the CDC reported that more outbreaks are expected in the United States. There is data from the Chinese government reporting that the number of daily virus infections in China is dropping. This data has been backed up by the World Health Organization. However, the Chinese government has not been transparent and there are still a lot of unknowns.

From a technical perspective, we have been concerned over the widespread complacency on the part of investors. Most of the sentiment indicators we follow have been showing a high level of complacency. Additionally, market breadth has significantly deteriorated. Optimism seems to have gotten ahead of itself leaving the market vulnerable to a correction. It's important to note that the prior two declines in the Dow of 1,000 points or more, both occurred in February 2018. The Dow lost about 4% that year but that did not stop the long-term bull market.

We suggest that investors not overreact as the "weight of the evidence" remains positive. Past epidemics have tended to have a short-term impact on stocks. If the virus can be contained, all likelihood will be that this will have a short-term impact. The duration of this virus will determine the impact on the stock markets.

Although we do not anticipate the Federal Reserve acting at this juncture, Vice Chairman of the Fed today indicated that they are closely monitoring the coronavirus situation and will make a policy on a meeting-to-meeting basis. The market is betting that they will cut interest rates this summer with a small chance of a policy change in March.

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