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March 3, 2020

The spreading coronavirus has created uncertainty and anxiety for many people in their daily lives. This is a normal reaction and we can only offer what the medical professionals have been saying which is to use common sense and not to panic. The numbers remain relatively small and the medical community is working up treatments and vaccines which show promise both in efficacy and timing.

However, the economic and market impact of the coronavirus is an area we feel we can offer expertise. Your portfolios are comprised of businesses with solid earnings, cash flows and balance sheets. The economic impact of the virus should be limited and should not materially impact the sustainable value of the underlying businesses in your portfolios. Growth will slow in the first half of 2020, while overseas slowdowns may potentially bring domestic growth down for the full year. However, the financial results for companies will likely be comparable with 2019, dividends will be paid, and growth is expected to resume once the spread of the virus has peaked and the medical community can offer some relief.

Your investment portfolios are designed for the long term. There's no need to change strategies because of short term price swings in equity markets. In volatile times, it's typically best to keep overall investment strategies in place while making small adjustments as opportunities arise.

The impact on the markets has been abrupt. The S&P500 index is off 7% YTD thru March 3; but all of the decline has come in the past two weeks. For bonds, the 10-Year Treasury yield has dropped from 1.8% to 1%, an all-time low. These large and volatile swings in both markets have been mostly indiscriminate and suggest momentum strategies and algorithmic trading have been trying to price in the full impact of the virus in a very short period. For perspective, the S&P500 index was up 9% in Q4 2019 so equities are still above where they were five months ago. This exemplifies how the markets can make exaggerated moves and can overshoot in both directions. The best course is to remain calm and let the underlying businesses continue to manage their way through the changing circumstances.

As we suggested during the December 2018 selloff, we encourage you to remain confident in the prospects for US businesses. We thank you for your trust, and we wish you a very healthy 2020.

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