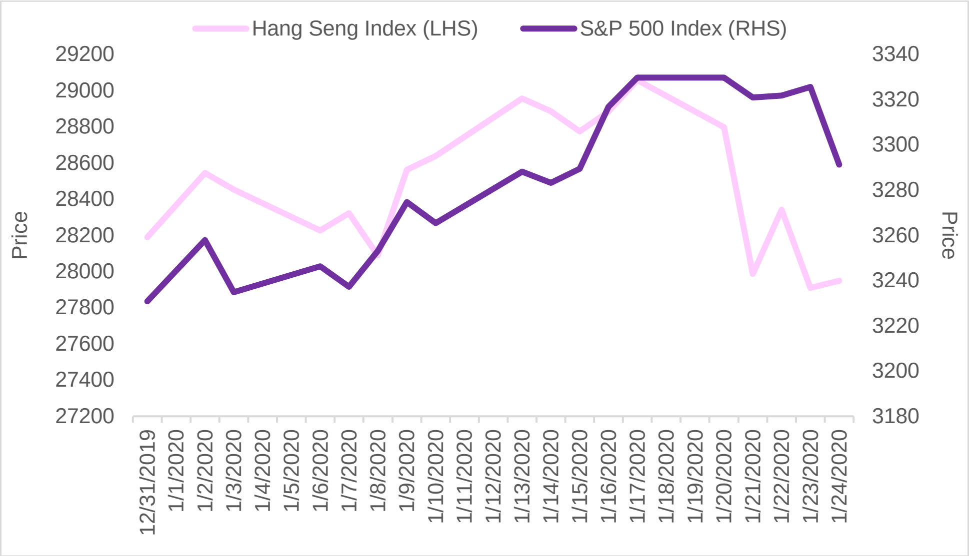
Coronavirus Wobbles Markets

By: SEI Fixed Income Portfolio Management

- The coronavirus has pushed global equity markets lower and bond prices higher as investors seek less volatile holdings for their portfolios.
- Past virus outbreaks resulted in similar market conditions.
- We anticipate any market disruption to be temporary.

The emergence of new strain of the coronavirus has pushed global equity markets lower as investors seek less volatile holdings for their portfolios. Hong Kong's Hang Seng Index declined by nearly 4% between January 17 and January 24. The S&P 500 Index fell 1% over that time, snapping a lengthy winning streak as airlines, cruise lines, casinos and luxury goods all declined The Shanghai Stock Exchange Composite Index is down over 3% while the Shenzen Composite is down nearly 2.75% over the same period. Oil has pulled back as investors anticipate slowing economic activity and reduced demand for travel. West Texas Intermediate crude oil futures have tumbled in excess of 7% from January 17 through January 24.

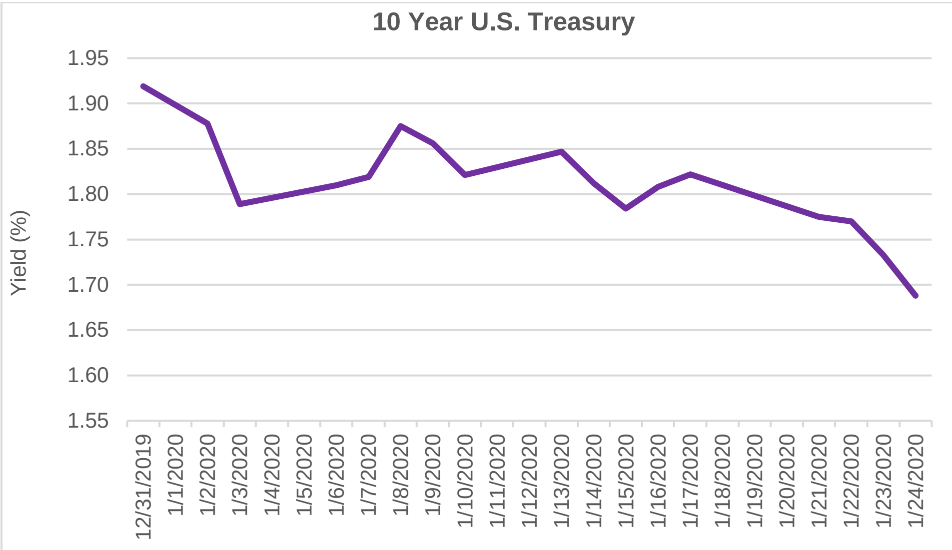
Exhibit 1: Asia Pulls U.S. Down



Source: SEI, Bloomberg
Data as of 1/24/2020

U.S. government bond markets have been the beneficiary of the news, as a 'flight-to-quality' trade ensued with investors buying government bonds. Prices were up as the yield on 10-year Treasury bonds fell in excess of 10 basis points from January 17 to January 24. Over that same time period, corporate bonds underperformed their nominal Treasury counterparts slightly, with spreads modestly widening 2 basis points according to the Bloomberg Barclays US Corporate Bond Index.

Exhibit 2: Yields Fell as Investors Sought the Relative Safety of Treasurys



Source: SEI, Bloomberg
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How Did Markets React During Past Outbreaks?

The current outbreak has led many to draw parallels to the 2002-2003 SARS outbreak in China. At the onset of the SARS outbreak, the Chinese public health system sought to suppress media coverage of the outbreak. Chinese authorities have taken a more proactive approach to the current outbreak. Additionally, medical services in China have advanced significantly since the 2003, suggesting the current outbreak will be better managed.

That noted, the SARS outbreak of the early 2000's did result in economic and financial costs to China. As Chinese growth suffered, the retail, airline, casino and property businesses all took hits. Nevertheless, the damage was temporary and Asian markets rebounded.

What are we doing in our Managed Account Solutions bond portfolios?

The coronavirus story in its early stages and the situation remains fluid. The initial outbreak in mainland China has begun to spread internationally, with cases now reported in a growing list of countries including Japan, South Korea, Thailand, Singapore, Vietnam, the United States, France and Canada to name some of the larger ones.

Given the historical impact of SARS on certain businesses in the retail, airline, casino and property businesses, there is scope for short-term underperformance of companies within these sectors as a result of the current outbreak.

Our portfolios are constructed using high-quality investment grade bonds. They do not have direct exposure within airline, casino and property businesses. We do have exposure to the retail business but these issuers are large, multinational corporations including leaders in the retail industry. Our view is that these issuers should weather the storm better than most. We do not anticipate this situation having a material adverse impact on these or any other issues we invest in. Based on our assessment of the current situation and similar events in the past, we are not making any changes to our model portfolio holdings at this time.

Index Definitions

Bloomberg Barclays US Corporate Bond Index: The Bloomberg Barclay US Corporate Bond Index is a broad-based benchmark that measures the investment-grade, fixed-rate, taxable corporate bond market.

Hang Seng Index: The Hang Seng Index is a market-capitalization-weighted stock-market index used to track the largest companies of the Hong Kong stock market.

Shanghai Stock Exchange Composite Index: The Shanghai Stock Exchange Composite Index is an unmanaged index that consists of all stocks that are traded on the Shanghai Stock Exchange.

Shenzhen Composite Index: The Shenzhen Composite Index is a market-capitalization weighted index that tracks the stock performance of all A shares and B shares (B shares are denominated in renminbi but traded in Hong Kong dollars) traded on the Shenzhen Stock Exchange. It is not adjusted for free float (shares available for public trading).

S&P 500 Index: The S&P 500 Index is an unmanaged, market weighted index that consists of 500 of the largest publicly-traded U.S. companies and is considered representative of the broad U.S. stock market.

Important Information

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice and is intended for educational purposes only. Holdings are subject to change. There is no guarantee any type of security mentioned will remain in or out of the portfolios in the future.

Index returns are for illustrative purposes only and do not represent actual investment performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

There are risks involved with investing, including loss of principal. Bonds and bond funds will decrease in value as interest rates rise. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume.

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