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Dear Valued Investor:

Monday was a tough day in the stock market, with the S&P 500 Index down more than 3% as the number of coronavirus cases reported outside of China jumped. Monday's losses reversed all of this year's gains so far for the S&P 500 Index and the Dow Jones Industrial Averages. The Nasdaq Composite Index appeared to be holding onto a small year-to-date gain through Monday's close. After several months of relative calm in the markets, Monday's volatility probably felt worse than it might have otherwise, but a 3% one-day decline never feels good.

Every virus outbreak is different, but looking back at other major global outbreaks over the last three decades (SARS, bird flu, swine flu, Zika, etc.), we can see that the impact to the U.S. and global economies and stock market has tended to be short-lived. It's possible the current outbreak has the potential to follow a similar path, although there is still significant uncertainty. The coronavirus has spread more quickly than SARS, the most comparable outbreak, but the policy response also has been more aggressive, and the survival rate has been higher.

To put Monday's decline into perspective, even in positive years for stocks, the S&P 500 historically has experienced an average peak-to-trough intra-year decline of about 11%. In other words, the S&P 500 has fallen 11% at some point during most years before ending higher. This latest pullback that we're experiencing has barely reached 5%, and it is still well within the normal range of market volatility. On average, the S&P 500 has experienced three to four pullbacks of around 5–10% per year.

It's also important to remember that the global economy had started to see a pickup in momentum in late 2019/early 2020, before the outbreak. Leading indicators of economic activity were pointing higher. Purchasing managers' surveys for the United States and Europe had improved. And corporate America delivered solid better-than-expected fourth quarter 2019 earnings results, with many companies saying good things about their 2020 outlooks.

Many view the coronavirus as a delay in—not an end to—the global economic acceleration story that has been unfolding since December's U.S.-China trade deal. That momentum has put the global economy and corporations in better positions to weather the coronavirus storm. Most likely there will be global economic impact from the coronavirus over the next several months, but investing fundamentals make the case for a rebound in the second half of this year, potentially with some help from government stimulus.

As difficult as it may be to stay the course in the face of recent market volatility, long-term investors may want to consider that approach. Based on history, it is possible that we may see a return to pre-outbreak levels of global economic growth and corporate profits within the next several months—which could continue to power this bull market and economic expansion through 2020 and possibly beyond.

Please contact me if you have any questions or concerns.

Sincerely,

Michael W. Jowdy, CFP®