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WEALTH MANAGEMENT  
*"Perspective for the Decisions Ahead"*

# The Weekly Note

A Weekly Market Commentary

*Monday, February 3, 2020*

## ***"Stocks finally find a reason to sell off"***

The S&P 500 ended January slightly lower after losing 2.1% last week, a week that was bookended by fears surrounding the outbreak of the China-based coronavirus. It had been a while before we added some new bricks to the market's wall of worry, and few things can serve as better mortar than a surprise viral outbreak.

The two biggest takeaways we have from last week are 1) sometimes the market needs a reason for a healthy correction in sentiment and 2) short-term market predictions are very difficult. After all, who had a bat virus passing via snakes to humans in their 2020 market outlook?

Here are the facts, as far as we know. There have been over 17,000 cases of coronavirus diagnosed as of this morning, including 11 in the U.S. This is already more than double the 8,098 SARS cases in the 2002-2003 outbreak. The silver lining is that the fatality rate for the coronavirus is just over 2%. SARS had a fatality rate of 9.5%. The Ebola virus, which saw a resurgent outbreak in 2014-2016, resulted in 11,325 deaths and 28,652 cases, a fatality rate of nearly 40%<sup>1</sup>.

So at this point, while the impacts to the Wuhan province and overall Chinese economy will no doubt be felt, we think it is too early to see a major impact to the global economy or U.S. companies. There will certainly be more specific ramifications from the quarantines, suspensions of international travel and overall supply chain disruptions, but we would expect these to be transitory as they have been in past outbreaks. That is, of course, subject to change based on how things evolve.

Looking at recent history, the Ebola and Zika viruses dominated market headlines for several months in respective outbreaks, resulting in temporary stock-market pullbacks. The selloffs ultimately ended up being short-lived, which is the risk as an investor of overreacting. While it is difficult to quantify the actual economic impact in these prior cases, it is safe to say that the magnitude did not come close to the media's coverage. After all, it is great fear fodder to stoke the fires of the next pandemic.

The S&P 500 was up nearly 42% over the past 13 months through mid-January. 80% of stocks were trading above their 50-day moving averages before last week (now 45%)<sup>2</sup>. The fears surrounding the coronavirus are following a period of historic strength and dormant volatility.

We were overdue for a correction and think it is likely we look back at this correction as an excuse for such, not a catalyst for something much worse.

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Source:

1. <https://www.cdc.gov/vhf/ebola/history/2014-2016-outbreak/index.html>
2. [https://www.barrons.com/articles/dow-jones-industrial-average-drops-733-points-on-week-as-coronavirus-takes-toll-51580520779?mod=past\\_editions](https://www.barrons.com/articles/dow-jones-industrial-average-drops-733-points-on-week-as-coronavirus-takes-toll-51580520779?mod=past_editions)

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