CLIENT ALERT – CORONAVIRUS UPDATE

As of this writing, the S&P 500 is down roughly 3% on the day and is set for its worst day in two years as investors fret over a rise in coronavirus cases outside of China and some signs last week of strains in global supply chains. As a result, energy officially reached bear market territory (a +20% decline) and technology stocks lost $250 billion with concerns on supply chain and lower revenues due to large exposure to China.

As of February 24th, according to the World Health Organization (WHO), there have been 79,331 confirmed cases with 77,262 located in China and 2069 cases in 29 countries identified outside of China. Several countries including Iran, Italy and South Korea reported a rise in virus cases over the weekend. The most recent reports indicated there have been approximately 2618 deaths due to the coronavirus, indicating a slight uptick in the fatality rate from 2.5% to 3% but far from the fatality rates of SARS and MERS, which had fatality rates of 9.5% and 34.5%, respectively. However, the WHO today said it is too early to declare the coronavirus a pandemic.

Last week, the flash Purchasing Manager Index's (PMIs) showed a clear and significant impact from the coronavirus, it was mostly evident in longer supplier delivery times. In South Korea, imports from China dropped by nearly 20% year-on-year, and some estimates show that South Korea's average daily imports from China collapsed to the lowest level since 2010. Furthermore, other S&P 500 companies are starting to join Apple in the chorus of companies referencing the coronavirus on earnings calls and the possible disruption it could cause.

At BFSG, we wonder how the markets would fair if we didn't have a 24-hour news cycle that loves hyperbole. This morning CNBC was covered without commercials because the Dow was down over 1,000 points for a moment. While this is important to be aware of, it happens semi-frequently and in context is not a special event. In fact, it is common for days like this to occur several times every year. Last August, the markets were volatile and experienced three days with declines of at least 2.6%.

When we go through these market conditions one question we need to ask is, whether this time really is different. We are not anticipating this to result in a recession but given the growing concerns we remain cautiously optimistic. The markets still have strong tailwinds with low energy costs, low unemployment and a strong consumer. March's PMIs, due out next week, might give us a better idea about the likelihood of the V-shaped recovery.

Honestly, only time will tell if this time is different, but we believe now is the time to prepare by having a financial plan in place, having an appropriate emergency cash reserve, and revisiting your investment objective and risk tolerance. We also have plans in place to help protect the portfolios if this time really is different. As Warren Buffett advocated in his annual shareholder letter this weekend, "…equities [are] the much better long-term choice for the individual who does not use borrowed money and who can control his or her emotions". Don't hesitate to talk with us if financial worries are keeping you up at night.

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