SUMMIT FINANCIAL

Update – March 9th, 2020

Quick take

- Markets kicked off the week on a tough note with major global equity indices down between 5% and 7%. U.S. markets halted trading early in the day after a 7% circuit breaker was met.
- Volatility was acerbated by a clash between Russia and Saudi Arabia resulting in Saudi Aramco reducing prices and increasing production. This pushed the price of crude down ~20%.
- Coronavirus cases outside of China continued to multiply. The total number of cases globally has surpassed 110,000 with approximately 3,800 deaths.
- Global travel has come to a standstill and Italy recently enacted a lockdown of 17 million people across its northern cities. The U.S. has yet to enact such sweeping quarantine efforts.

There's a lot unfolding quickly. To simplify things, we've broken the update into sections to briefly address each key aspect. *It's important to remember that while painful in the short-term, market corrections happen from time to time. History has shown that these events will eventually pass and have the potential to create compelling long-term investment opportunities if well navigated.*

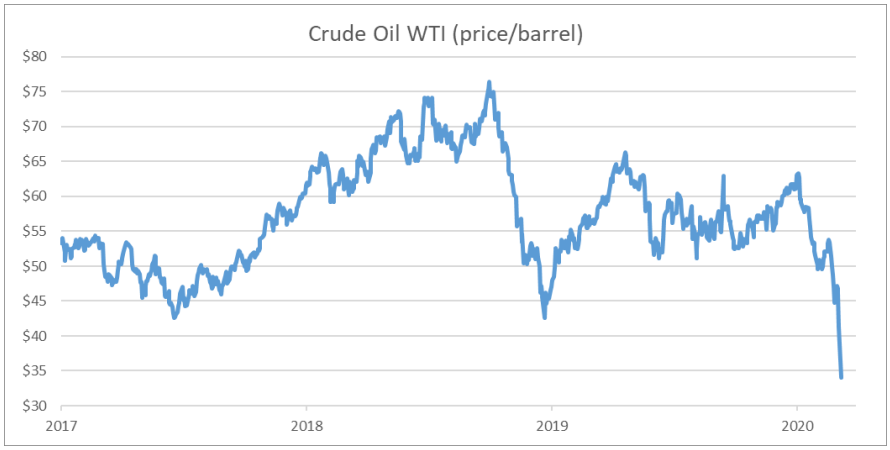
Coronavirus (Covid-19)

The number of confirmed cases of Covid-19 continued to expand and there are now 110,000 detected instances globally. Cases have spread across 108 countries and regions with a somewhat varied global response. In China, where the virus originated, cases appear to have peaked after extensive quarantine efforts over the past few months. So far, there have been approximately 550 cases in the U.S. and 21 deaths. Despite the closure of some schools in key outbreak areas and a number of companies requesting (or mandating in some cases) that employees work from home, there has yet to be any widescale quarantine effort domestically. This contrasts to Italy, where the country initiated the lockdown of several northern cities impacting about 17 million people. Italy's efforts follow South Korea's response, which has the highest number of cases behind China. Assuming the number of cases continues to expand, more drastic and potentially coordinated efforts of containment should be expected. This is likely to impact short- to medium-term global economic growth. As it stands, numerous economic institutions have come out with lower future growth and/or earnings projections.

Markets

Equity markets have fallen as investors continue to shed risk from their portfolios. An automatic circuit breaker was tripped Monday morning when U.S. stocks fell enough to impose a 15-minute trading halt. This was the first time the circuit breaker halted trading since 1997. Declines early this week are pushing major indices to bear market territory or a decline of 20% or more from recent peaks. As stocks have fallen, so have bond yields. This has propped up the price of less credit sensitive fixed income offering some stability to diversified investment portfolios. The benchmark 10-year U.S. treasury yield fell to a new record low around 0.4%. Adding to investor uncertainty, escalating tensions between Russia and Saudi

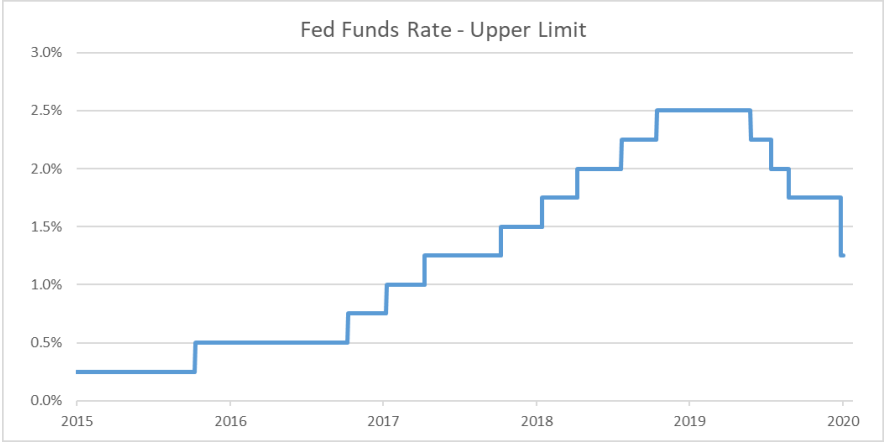
Arabia resulted in Saudi Aramco slashing its selling prices and boosting output. The move triggered an oil price war which pushed down prices ~20% to levels last reached in 2016. A price war in conjunction with an expected slip in demand poses meaningful solvency risks to numerous value-chain participants. Instability in the energy market also had reverberations through currency markets. Commodity-linked currencies, such as the Russian ruble and Norwegian Krone suffered sizeable daily declines.



Source: Bloomberg

Central Banks

Central banks are likely to introduce additional monetary policy measures in the coming weeks. As it stands, the Fed enacted its first 50-basis point rate cut since the financial crisis last week. Futures markets are also pricing in additional measures in the near-term. While many countries might continue easing into 2020, select nations are questioning the diminishing returns of monetary stimulus with rates already so low. As a result, there could be a greater call for fiscal policy and stimulus if things were to worsen and were monetary policy to prove less effective. This might already be the case as the positive stock market reaction to the recent Fed cut was short-lived.



Source: St. Louis Federal Reserve

Conclusion

Volatility is likely to persist until there is greater clarity around the containment of Covid-19 and investor fear subsides. While it can be hard to quell the 'noise' at times, it's important to maintain a long-term perspective and avoid brash decision making. Balanced investment portfolios are designed with the intention of being able to weather these challenging economic periods and maintain the optionality to take advantage of opportunities presented on the other end.