



## Investment Update for the week of March 9<sup>th</sup>, 2020

- **Coronavirus (COVID-19) Update:** Global attention has dramatically increased given the continual growth of cases worldwide
  - As of Monday morning, more than 110,000 people have been infected with the coronavirus, and about 3,800 have died as the outbreak continues to spread globally. It has spread to at least 108 total countries, although the vast majority of cases and deaths stem from China. Within the U.S. there have been about 560 reported cases resulting in 22 deaths. Scientists, doctors, and researchers are racing around the clock, 24 hours a day to learn more about the implications of the disease, how it spreads, and to come up with a treatment or even a vaccine. In a positive spin, the reports of new cases within China has slowed down due to a strict containment effort put forth months ago. Additionally, despite the fear of the unknown the disease causes, more than half of all people infected have since recovered back to normal health. The world is watching day-by-day as new events unfold and what the future will bring in terms of containment or quarantine efforts within any particular country, state, city, or district. From an investment standpoint, we continue to believe a thoughtful diversified portfolio asset allocation should provide an appropriate risk-adjusted return. Given the expected market volatility, we also advocate to remain invested for the long-term to allow this situation to work itself out.
- **Global Markets:** Continued COVID-19 fears led to incredible volatility levels with a week of mixed returns while bond yields declined to record lows
  - **U.S. Equities** ended the week with mixed results following several consecutive days with an unprecedented amount of volatility related to the coronavirus and presidential primary elections. Representing large-cap and broad stocks, the S&P 500 and Wilshire 5000 rose by 0.6% and 0.4% respectively. However, small-caps did not fare as well, with the Russell 2000 Index falling by 1.8%. From a sector perspective, the results varied quite a bit. The energy sector (-7.2%) fared the worst, stemming from a fall in the price of oil after OPEC failed to convince Russia, a non-OPEC member, to cut their production levels. Interest rate sensitive sectors such as utilities (8.0%) and consumer staples (6.3%) benefitted from the falling rates. From a market-cap and style perspective, large-caps exceeded small-caps and growth outpaced value as measured by the respective Russell indices.
  - **International Equities** also had mixed results for the week. The developed, international MSCI EAFE Index appreciated by 0.4% while the MSCI EM Index fared better, rising 0.7%. Europe and Japan declined on fears evidenced by the MSCI Europe Index and MSCI Japan Index falling 2.2% and 2.4% in local currencies respectively.
  - **Credit Markets'** performance strongly rose, following continued falling yields as the U.S. Treasury 10-year yield ended the week at an all-time-record low of roughly 0.77%. This came after an unscheduled emergency 0.50% interest rate cut by the Federal Reserve on Tuesday, leaving the target rate between 1.0% and 1.25%. The Fed attributed this cut to the "evolving risks to economic activity" brought on by the coronavirus. The decline in rates led to positive returns across fixed income segments despite some widening spreads due to liquidity concerns. For reference, the broad Bloomberg Barclays U.S. Aggregate Index rose 1.9% over the week. Coming from continued demand, municipal bonds also produced positive results but lower than most other sectors as shown by the Bloomberg Barclays Municipal Bond Index increasing 0.3%. Credit sensitive bonds, such as high-yield, declined due to a widening of credit spreads, despite falling rates.
- **Economic Data/News:** Positive economic news and Presidential Primaries aimed to soften virus concerns
  - **U.S.:** In thinking through several of the potential impacts the coronavirus could have on the U.S. economy, a major one would be the impact to domestic and international travel and tourism. Several airlines have taken

actions and offered free cancellation fees for previously booked flights. Despite this, there were several encouraging economic data points released showing the resiliency of the economy. The Institute for Supply Management reported that manufacturing sector's activity grew in February, despite slowing from the growth rate of the week prior. Additionally, weekly jobless claims remained very low for the second straight week, the February jobs report indicated that more nonfarm jobs were added nationwide than expected, and the unemployment rate held firm at around 3.5% for the fifth consecutive month. In politics, Joe Biden won more Super Tuesday victories than his competition which seemingly spurred increased flows into high-quality sectors.

- **International:** European economies either implemented or prepared to implement fiscal measures to deal with the virus outbreak. The worst hit European country, Italy with ~ 4,000 cases and ~150 deaths, has passed upwards of an €8 billion stimulus package to assist in containment and treatment efforts. Similarly, Germany quickly stated they would be ready to do the same at a moment's notice if necessary. Possibly following the U.S.'s lead, the European Central Bank's meeting on March 12<sup>th</sup> may result in another rate cut deeper into negative territory, and maybe increase the pace of its bond-buying program. In Asia, the spread of the virus in China has been slowing but increasing in Japan. To counter this, the BoJ announced they would add 500 billion yen of additional liquidity through the secondary market, and even purchased a record-level of ETFs on Monday. Separately, the Chinese purchasing managers' index fell from 50.0 in January to 35.7 in February, hinting that the Chinese economy could very well suffer a worse-than-expected contraction in the first quarter of 2020.
- **Odds and Ends: NCAA and NBA contemplate playing in empty arenas, Sanders campaign is all-in on Michigan, Tupperware lost its way in American kitchens**
  - Efforts to stop the virus's spread have spilled into American sports. With **NCAA's** March Madness and the **NBA** playoffs both a few weeks away, both enterprises are looking into possibly playing their games in empty arenas without fans. This doesn't bode well with some players, including LeBron James, who claimed he wouldn't play if there are no fans present to watch. Within a few weeks, we'll have a better idea of what to expect.
  - The future of **Bernie Sanders's** campaign could come down to Tuesday's primary vote in Michigan. After losing 10 of 14 states to former Vice President Joe Biden on Super Tuesday, Michigan may be one of the final key states that Sanders needs to stay in the race. He's recruiting support from all areas he can, including former Democratic party nominee Kamala Harris. Interestingly, Sanders won the state in the 2016 primaries over Hillary Clinton.
  - The once flourishing, well known company, **Tupperware**, is barely staying afloat given years of declining revenues and profits. What was part of seemingly almost every American kitchen during the past several decades, Tupperware was a staple product amongst homemakers wanting to store and save food or goods for future use. The firm is delaying filing its annual report, in hopes it may uncover a possible accounting mistake to improve the bottom-line. It's 1-year and 5-year returns come in at a shocking -90% and -96% respectively.
- **Resource of the week:** Most news stories we read each day focus on negative aspects - typically any factor that deviates from the norm. The podcast Mindset Mentor with Rob Dial challenges this and attempts to put things into perspective with a positive spin. This podcast offers many valuable episodes, but the timely one to mention now is called The Truth About the Coronavirus. Given the abounding negative and shocking news we read about the virus, this short episode does a fantastic job to redirect the public's concerns into something more manageable. As always, please feel free to submit suggested resources to [smelnick@sfr1.com](mailto:smelnick@sfr1.com).
  - **Link:** [https://open.spotify.com/episode/6SQKBJ0w9m1ipVBzaYNdgS?si=3k4\\_NatTSkiqUXZuz\\_IFYw](https://open.spotify.com/episode/6SQKBJ0w9m1ipVBzaYNdgS?si=3k4_NatTSkiqUXZuz_IFYw)

**Sources: Bloomberg, The WSJ, T. Rowe Price Global Markets Weekly Update, Business Insider**

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