The Coronavirus and the Markets – An Update

February 25, 2020

Global equity markets were pummeled yesterday as fears around the spreading of the coronavirus (aka Covid-19) infected investor sentiment. Domestically, the S&P 500 fell 3.4%, the worst one-day decline since February 2018--dragged down by energy and technology stocks. The Nasdaq Composite lost 3.7% and the Dow Jones Industrial Average shed more than 1,000 points to close the day 3.6% lower. Investors flocked to both gold that closed at seven-year highs and bonds with the yield on the 10-year Treasury falling to 1.37%. The threat of a global downturn and reduced corporate earnings pressured stocks across the world with Asian and European markets bearing most of the decline.

Back on February 10th, we addressed the risk of the coronavirus and why investors should be cautious if their time horizon for investing was shorter rather than longer. Even though the spread of the virus appears to have peaked in China, outbreaks in Iran, Italy and South Korea accelerated the fear that a pandemic was at hand. The World Health Organization is not calling the virus a pandemic-yet-although citing that China has reported a total of 77,362 cases of the coronavirus, including 2,618 deaths. The challenge we face is whether the spread of the virus will continue across the globe and paralyze global business activity. With the virus spreading to Northern Italy, Switzerland, Southern Germany and Austria are at risk and these four countries have huge supranational industrial trading hubs. Similarly, the spread to South Korea might serve as a ‘wake-up’ call for Japan and other Asian economies – particularly Tokyo that will be hosting the summer Olympics.

Unfortunately, we do not have a crystal ball, but we do know that prior viruses and pandemics were successfully neutralized. As we mentioned a few weeks back, the current influenza virus is substantially deadlier than the coronavirus but gets little media attention. We urged patience and suggested the incubation time might be more than two weeks and that markets would fluctuate based on daily good and bad news. So far, the news has been mostly on the bad side. The good news is that the U.S. was quick to respond as the president created a task force to combat the virus and infections in the U.S. remain very low at 14 confirmed cases.

In Charleston, we experience hurricanes every year that threaten our home, office and general livelihood. While we know these storms can inflict immeasurable damage, we know too that the storm will pass. Once a storm heads in our direction, we take the appropriate safeguards knowing that we ultimately must wait it out. Investing in equity markets for the long-term requires a reasonable perspective and a “hunker down” approach during tough times over the short-term. As usual, we will be monitoring developments that could affect domestic equities 24/7 and will make the appropriate investment decisions like we have in the past. In the meantime, we are committed to the equity market and might even take advantage of price declines in stocks that we want to own for the next ten years.