

March 3, 2020

Perspective on the Market

Coronavirus fears cause stock market correction and volatility

In the week ending February 28th, the stock market went from a record high, and pushing higher, to a market correction, defined as a 10-20% pullback from the most recent highs.

The sell-off was fueled by concerns that efforts to contain COVID-19 will slow economic growth and consumer spending, as well as cut corporate profits. A combination of profit-taking by investors, a flight to quality, and protective sell orders by automated computer algorithms (program trading) drove the market sharply lower very quickly.

The Dow Jones Industrial Average fell 12.4%, the S&P 500 lost 11.5%, and the Nasdaq decreased 10.5%, representing their worst weekly drop since 2008. The flight to quality as investors sold riskier investments caused bond prices to climb, pushing the yield on the 10-year Treasury note to 1.12%, the lowest level on record.

Before the market close last Friday, Fed Chairman Jerome Powell tried to calm U.S. financial markets while acknowledging their fears: “The fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity,” Powell said. “The Fed is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy.”

The major indexes staged a strong upside move of about 5% on Monday as the market anticipated major responses from global central banks, including multiple interest rate cuts by the Fed, to stimulate growth and shield the global economy from the effects of the outbreak. U.S. interest rates are at a low level by historical standards, but higher than the rates in much of the rest of the world. In an aggressive move on Tuesday, the Fed lowered rates by 0.50%.

We believe the market will likely be very volatile in the near-term as the news headlines alternatively suggest that the spread of COVID-19 is under control or shows little signs of improving.

2019 pushed the market to record highs and stretched valuations, and we approached the market cautiously going into 2020. We have held a larger cash position than normal as we were looking for dips in the market to buy new companies or add to existing holdings at more reasonable prices.

Our focus is on individual companies, and this market correction may present select opportunities from which we hope to take advantage.

Market volatility is unsettling. We are here to help you navigate the current market fluctuations. Please contact us if you have any questions or concerns about your portfolio and individual situation.

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RISK CONSIDERATIONS

A mutual fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company and may be obtained by calling 866.209.1129 or visiting villere.com. Read carefully before investing.

Mutual fund investing involves risk; loss of principal is possible. Investments in smaller and medium sized companies involve additional risks such as limited liquidity and greater volatility than large-cap companies. The Villere Balanced Fund will invest in debt securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower rated and nonrated securities present a great risk of loss to principal and interest than higher rated securities. Past performance does not guarantee future results. Diversification does not assure a profit, nor does it protect against a loss in a declining market.

S&P 500 is an unmanaged index which is widely regarded as the standard for measuring large-cap U.S. stock market performance. The stock index does not incur expenses and is not available for investment.

Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization and serves as a benchmark for small-cap stocks in the United States.

NASDAQ Composite Index, a market value-weighted index of all domestic and international common stocks listed on the NASDAQ stock market.

Dow Jones Industrial Average Index is an unmanaged index comprised of 30 large, publicly owned companies based in the United States commonly used to measure the performance of U.S. stocks.

It is not possible to invest directly in an index.

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