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Perspective on the Market

Stocks fall into bear market as concerns about COVID-19 escalate

The Coronavirus (COVID-19) is starting to hit closer to home for many people and the concerns surrounding containing and mitigating the global outbreak of the virus have been escalating. More schools and venues are adopting social distancing policies, there are bans on gatherings of large crowds, President Trump announced a 30-day European travel ban, and the World Health Organization (WHO) declared COVID-19 a pandemic.

Given the uncertainty around the impact on the economy and corporate earnings, the stock market's 11-year bull run came to an end this week. As of this writing, the S&P 500 Index has fallen into bear market territory, down 26% from the recent high on February 19th. The Russell 2000 Index, which tracks stock performance of small companies, has declined 33% from its January 16th high.

Wall Street's "fear gauge", the CBOE volatility index (VIX), spiked to its highest level since the 2008 financial crisis. The flight to quality as investors preferred safe-havens such as Treasuries over riskier investments caused bond prices to climb further, pushing the yield on the 10-year Treasury note to 0.54% on March 9th, near the lowest level on record.

COVID-19 has disrupted global supply through factory shutdowns and supply chain disruptions, and the growing number of quarantines are now affecting consumer demand as people are staying home. Consumer spending has been the key driver of economic growth during the bull market in stocks.

Investors are hoping for fiscal stimulus from the government and monetary stimulus from the Federal Reserve. The Fed's emergency rate cut in February to stimulate growth signaled a readiness to act against the COVID-19 fallout. Though the impact on the economy may be limited in the short-term, the Fed is expected to cut interest rates again next week. Also, today the Fed announced plans to inject hundreds of billions in liquidity into the markets to help boost investor confidence.

Over the short-term, the markets will likely continue to be very volatile. The headlines about COVID-19 may get worse, which then may prompt more emotional selling. This market downturn has affected the companies that we hold in our portfolios, and we continue to monitor and evaluate the situation and our holdings. We went into February with a larger cash position than normal. Our focus is on individual companies and we are using this market sell-off to look for new opportunities in select companies or add to existing holdings at much more reasonable prices.

We know that sharp market declines and high volatility are stressful. While we use this commentary to communicate our broad perspective on the recent market environment, don't hesitate to contact us if you would like to speak and/or meet with us to discuss your portfolio and individual situation.

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.

CBOE Volatility Index (VIX) is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPXSM) call and put options. On a global basis, it is one of the most recognized measures of volatility—widely reported by financial media and closely followed by a variety of market participants as a daily market indicator.

It is not possible to invest directly in an index.

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