**Weekly Markets Commentary**
March 2, 2020

**Investors Prepare for Uncertainty**

The combination of fear and uncertainty about the coronavirus slammed world markets last week, sending equity prices and bond yields plunging. The S&P 500® index skidded into a correction at the fastest pace in history, and bond yields reached record lows. When the week mercifully came to a close, the damage assessment was bleak. The S&P fell 11.5 percent for the week and is down 12.8 percent from its Feb. 19 high of 3386. The Chicago Board Options Exchange VIX index of implied volatility spiked to a level of 40 from 17 last week and approached 50 intraday. If there was anything positive to point to, it was the sudden reversal in the closing moments of trading on Friday that prevented the day, and week, from being even worse than they were. With just 15 minutes to go until the closing bell, the index was trading at 2881, but mounted a strong rally to finish at 2954, a 2.5 percent turnaround. And the rally was strong enough to turn the Nasdaq Composite index positive on the day. Whether that reversal holds any meaning remains to be seen, but it is a start. As it was, the S&P 500 crashed through its 50, 100, and 200-day moving averages all in the span of one week, while the late rally allowed the Nasdaq to close above its 200-day moving average.

The damage overseas was just as severe. The EuroStoxx 600 index dropped 12.2 percent and is down 13.2 percent from its peak. In Japan the Nikkei lost 9.6 percent, while in China the Shenzhen CSI300 fell a relatively mild 5 percent. In all, the MSCI World Ex-US index fell 9.7 percent.

The reaction in bond markets was similarly breathtaking. The headlong flight to safety pushed yields dramatically lower. The ten-year Treasury note yield fell by 32 basis points to 1.15 percent, a new all-time low. The two-year yield declined 44 basis points. High yield spreads gapped wider by 140 basis points, their widest in over a year.

**Supply Chains Across the Globe Disrupted; Fed Likely to Lower Rates**

It would be an understatement to say that the eagerly anticipated PMI data for February from China was shockingly weak. Released after trading had ended for the week, the first data point for a time period completely impacted by the virus showed that economic activity had contracted at a pace far exceeding even the most negative forecasts. The consensus forecast anticipated that manufacturing activity had slipped to a level of 45, below the contraction threshold of 50. In reality, it fell to 35.7, the lowest on record. The non-manufacturing index was forecast to slow only slightly to a still expanding level of 50.5. Instead, it dove to a level 29.6, also the lowest ever.

The implications for first quarter Chinese GDP are ominous. The level of inactivity speaks directly to the level of global supply chain disruption as the Chinese
The economy ground to a halt in an effort to contain the virus. It will be interesting to see if investors extrapolate even a portion of this experience to other economies as they deal with the spreading virus, as trading gets underway this week. Certainly, not every country has the willingness, if not the ability, to restrict movement to the same extent as does China. But already we are seeing some cross-border travel restrictions being imposed and events being cancelled. And that may be just the beginning, as the virus continues to spread.

The disruption in markets has rapidly accelerated both the timing and the magnitude of expectations of a response by the Federal Reserve. The CME FedWatch Tool says there is now a 95 percent probability of a 50-basis point rate cut at the Fed’s March meeting. Just one week ago, the likelihood of such an action in March was exactly zero. And the probability of a quarter-point rate cut at the March meeting was just 11 percent. But the two-year Treasury note is now yielding 0.91 percent, 67 basis points below the effective fed funds rate. And the three-month bill is yielding 1.27 percent, 31 basis points below Fed funds, and 12 basis points above the ten-year note, keeping that part of the curve inverted for two straight weeks.

What can Investors Expect in the Weeks Ahead?

It is worth noting that the pullback in equity markets is coming from record highs with expensive valuations. While valuations have been rendered slightly more reasonable than two weeks ago by the correction, and while we may see a rebound from these levels, stocks are still not cheap. And the outlook for earnings is becoming less certain as the virus impacts domestic economic activity in the weeks ahead.

We expect that markets and the economy will eventually recover from whatever impact the virus delivers. But the timing and duration of that impact remain uncertain. For the longer-term investor, sitting tight should eventually prove to be the best course of action. For those looking to trade in anticipation of a bounce, while a near-term rebound is certainly possible, it seems like a stretch to say with any confidence that we have seen the bottom.

Important Disclosures:

The views expressed are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Ameriprise Financial associates or affiliates. Actual investments or investment decisions made by Ameriprise Financial and its affiliates, whether for its own account or on behalf of clients, will not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not account for individual investor circumstances. Individual securities referenced are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell.

The Standard & Poor’s 500 Index (S&P 500® Index), an unmanaged index of common stocks, is frequently used as a general measure of market performance. The index reflects reinvestment of all distributions and changes in market prices but excludes brokerage commissions or other fees.

The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is a widely used measure of market risk. It shows the market’s expectation of 30-day volatility. The VIX is constructed using the implied volatilities of a wide range of S&P 500 index options.

The NASDAQ composite index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.
The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region.

The Nikkei 225 Index, more commonly called the Nikkei, is a stock market index for the Tokyo Stock Exchange and is calculated on a price-weighted index basis.

The Morgan Stanley Capital International All Country World Index Ex-U.S. (MSCI ACWI Ex-U.S.) is a market capitalization-weighted index that includes large- and mid-cap companies across 22 of 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries. With 2,420 companies, the index covers approximately 85% of the global equity outside the US.

The Shenzhen CSI 300 is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

The Purchasing Managers’ Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers’ Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

The Institute for Supply Management Non-Manufacturing Index uses information collected from surveys from over 400 non-manufacturing companies. An index with a score over 50 indicates that the industry is expanding, and a score below 50 shows a contraction.

The CME FedWatch tool calculates the unconditional probability that the Fed would hike, cut, or keep the federal funds rate steady during a given FOMC meeting. These calculations are based on the CME Groups 30-day Federal Funds Futures.

**Past performance is not a guarantee of future results.**

Ameriprise Financial Services, Inc. Member FINRA and SIPC.