Travel disruptions, event cancelations, and school closings make the virus threat real.

March 12, 2020
Russell T. Price, CFA, Chief Economist

Coronavirus consequences become more evident.
It was a very heavy day of selling on Wall Street as the major indices posted losses of approximately 9% to 11%. Financial markets seemed to reflect a growing sense of "it’s not real, until it happens to me" view of the coronavirus situation. Until now, the coronavirus had largely been viewed through the lens of news reports from faraway lands. There were cases here in the U.S., but they appeared contained, thus the threat didn’t really present as a reality in the minds of many.

The last 24 hours, however, seemed to change that perception. A fast growing list of school closings is now disrupting the daily lives of people across the country, the president announced international travel restrictions in a national address last night, the National Basketball Association (NBA) canceled the remainder of its season after two players tested positive for the virus, and beloved actor Tom Hanks and his wife were reported to have tested positive as well. Each story was prominent, but for them to all come in one news cycle seemed jarring.

Even a massive new liquidity program from the Federal Reserve failed to turn investor sentiment on the day. In the early afternoon, the Fed announced new market support programs totaling $1.5 trillion. Markets lifted off their lows in the minutes after the announcement, but the improvement was short-lived.

At the close, the S&P 500 (on a price-only basis) was 26.7% below its February 19th high, and down 23.2% for the year. Meanwhile, the dividend yield on the Index was 2.4%, or 1.6 percentage points better than the yield on the 10-year Treasury – the largest spread in favor of dividends in more than 30 years.

Committee View
Unfortunately, the coronavirus situation appears far from over. The sell-off in stocks to date could ultimately prove adequate relative to the business activity expected to be lost over the near-term. However, a lack of clarity relative to the virus itself leaves that as an unanswered question at this time.

What we do know is that periods of uncertainty are a common narrative in financial markets. We also know that diversification offers strong support during such periods, as does maintaining allocations made during calmer times, sticking with dollar cost-averaging investment programs for those in the accumulation phase, and maintaining a focus on quality underlying investments. “Quality” in this respect refers to companies with solid balance sheets, strong industry positions, favorable long-term business prospects, and solid, consistent cash flow generation.

We continue to believe that the most likely path over the intermediate term (6 to 12 months) is one in which the coronavirus presents a relatively temporary challenge, as have viral threats in the past. Admittedly, however, the range of possible outcomes in this situation appears large and, in some scenarios, quite difficult.

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