Uncertainty Swirling Around the Coronavirus Fuels Market Volatility

February 24. 2020

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Fears over the spreading coronavirus and the broader impact it may have on global economic growth continue to rattle the equity markets. Global stock markets were down 3%-4% (300-400 basis points) today on top of Friday's 1% (100 basis point) decline. The S&P 500 has effectively given back all its gains from the start of the year. Safe-haven assets such as gold, U.S. Treasurys, and the dollar have risen in price with the yield of the 10-year Treasury hovering around 1.35%.

It's impossible to speculate about how the disease may ultimately affect the global economy. With the epicenter of the outbreak in China, we expect a sharp slowdown in that country's first-quarter economic growth. This slowdown will reverberate throughout the world to a certain extent because of the significant role China plays in the global supply chain. Japan is already beginning to feel the initial impact in its tourism and travel sectors due to its proximity to mainland China. European economic statistics have not been impacted yet, but the continent has seen its first notable spread of the disease. Italy reported two hundred cases over the weekend.

Historically, lost growth caused by a natural disaster is typically regained in subsequent quarters. However, this disaster is not as contained as many of the other historical comparisons, so the markets are looking to assess signs of more permanent economic damage. At the very least, this virus will assert further pressure on the concept of globalization. This concept has been important to the development of emerging markets economies and, arguably, the length and breadth of this extended bull market. A strange consequence of this event could be the impact it may have on a trend towards home sourcing more intermediate goods. If this trend evolves, it would be of great benefit to the Midwest American manufacturing base.

The sharp decline in intermediate-term interest rates over the last month could potentially compel the U.S. Federal Reserve to reduce short-term rates. Given the lack of inflationary pressures, the Fed appears to have ample room to cut rates one or two times if the virus significantly impedes U.S. growth. Before the outbreak, the Fed was comfortable with the country's roughly 2% GDP growth environment.

While we may need to reduce our global and U.S. GDP growth estimates, we currently view this price action as another pullback in the record bull market. As markets were approaching our price targets only a week ago, we don't have to consider increasing our targets or reducing our equity allocation. We will monitor the impact of the crisis on corporate earnings given the immediate effect on sales and revenues as well as the impact of the strong dollar on multinational earnings. Please contact a Cerity Partners advisor if you would like to discuss your portfolio or recent market events.

Ben Pace is the Chief Investment Officer and a member of the Investment Committee. Prior to joining Cerity Partners, he was Chief Investment Officer, and Head of Global Investment Solutions for Deutsche Bank Private Wealth Management in the U.S. Ben has more than 25 years of experience in investment management. Prior to joining Deutsche Bank in 1994, he managed equity income funds for two investment organizations.