
# Market Update

**February 27, 2020**

**Equity and Bond Market Update**

(as of February 26, 2020)

| Index | YTD Return | Index | YTD Return |
|---|---|---|---|
| Dow Jones Industrial Average TR | -5.2% | MSCI EAFE (net) | -6.2% |
| S&P 500 Total Return Index | -3.3% | MSCI Emerging Markets Index (net) | -6.3% |
| Russell 2000 Total Return Index | -6.8% | Barclays US Aggregate Bond TR | +3.1% |

At the writing of this market update after market close on February 27th, markets zigzagged throughout today, but lost all support going into the close, with the S&P 500 Index closing down -4.4% on the day.

The spread of coronavirus is consuming markets right now. In line with our commentary from last week, we have been expecting a return to volatility for some time now, since market advances over the last five months experience uninterrupted gains of about +17% in the broad-based S&P 500 Index since the beginning of October 2019. That equates to an approximate daily average return of 0.20% per day. Historically, in the long-term, we have experienced daily average returns of about 0.04% per day. The coronavirus is giving markets the excuse they may have been looking for to correct valuations in an overheated market.

Since the close of Wednesday's market last week (February 19th), global stock markets have suffered quick losses across the board over the last week. Most interestingly, foreign aggregate markets have suffered the least over the last five trading days, with both foreign developed and emerging markets down -4.8% over the period, while U.S. markets have taken the brunt of global market losses, with large-cap U.S. stocks down -7.7% and small-caps down -8.5%. U.S. markets are closing in on "correction" territory.

Putting things into perspective, this means U.S. markets are currently trading at levels we saw just recently back in late October-early November of last year. Basically, this means that we have seen 0% return from the end of October through current, for all global equity markets, representing about one-third of the last year. Of course, the last week of this period has seen the most volatile of days. If you extend back to exactly one year ago, the S&P 500 is still up almost +9% which is in line with the long-run annual average.

Also to keep in perspective, is how portfolios are structured at Lifestyle. Unless you are considered an aggressive investor through risk tolerance questionnaires and discussions with your advisor, there are positions in your portfolios to different degrees that are actually moving in the opposite direction of equity markets right now. Of the six main bond fund positions we are currently holding, year-to-date annual returns range from flat to +2.7% for the year, including the last week. In addition, most of our portfolios are carrying a global real estate fund that has pulled back some over the last week but is still a bit on the positive side of return for this year.

So, is the Coronavirus different than historical health scares?

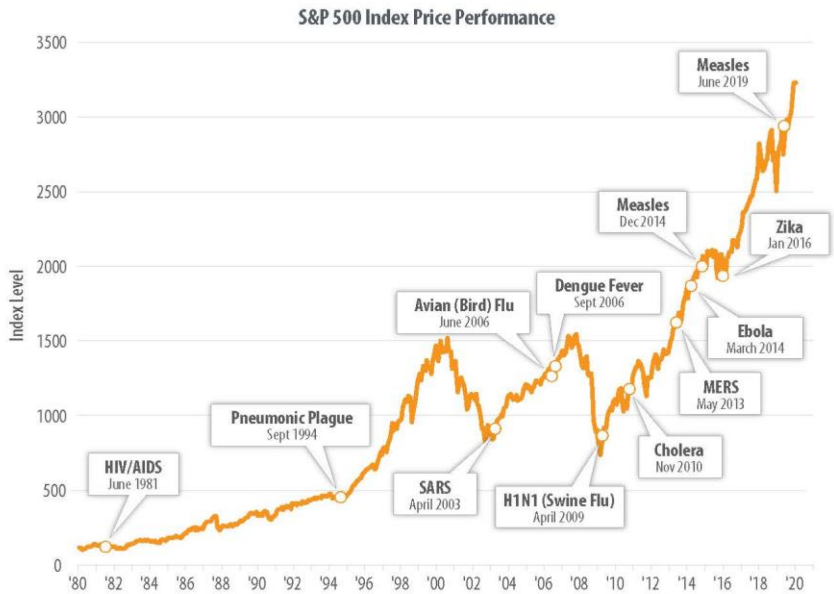
According to Worldometer, which aggregates health statistics from around the globe, active cases of the Coronavirus currently sit at 46,613. This may be a different number than what you have seen or heard from the mass media but it takes into account the total number of cases that have been reported since late December 2019 and adjusts for the number of closed cases due to deaths or successful treatments and recoveries. The adjustment is important since only active cases around the globe can spread the virus.

The number of active cases has actually been decelerating from around 58,750 back on February 16-17, to the current 46,613. Effectively, there has been about a 20% reduction over the last two weeks of the active cases that could essentially spread the sickness. Also, of the closed cases, the number of recoveries versus deaths currently has an 11-to-1 ratio, versus a 1.4-to-1 ratio at the beginning of February. This means that the rate of recoveries is accelerating exponentially compared to the rates of deaths.

As shown in the following graphic, with the exception of the HIV/AIDS epidemic in 1981, all stock market periods after major illness waves resulted in no negative performance after six-month and twelve-month periods. The only outlier was the measles outbreak (remember that?) in late 2014 with flat performance after six-month and twelve-month periods.

There have been warnings recently from multinational companies regarding the impact of supply shocks and lower consumer demand from

**Epidemics and Stock Market Performance since 1980**




| Epidemic | Date | S&P 500 6-Month % Change | S&P 500 12-Month % Change |
|---|---|---|---|
| HIV/AIDS | June 1981 | -6.6% | -16.5% |
| Pneumonic Plague | Sept 1994 | 8.2% | 26.3% |
| SARS | April 2003 | 14.6% | 20.8% |
| Avian (Bird) Flu | June 2006 | 11.7% | 18.4% |
| Dengue Fever | Sept 2006 | 6.4% | 14.3% |
| H1N1 (Swine Flu) | April 2009 | 18.7% | 36.0% |
| Cholera | Nov 2010 | 13.9% | 5.6% |
| MERS | May 2013 | 10.7% | 18.0% |
| Ebola | March 2014 | 5.3% | 10.4% |
| Measles | Dec 2014 | 0.2% | -0.7% |
| Zika | Jan 2016 | 12.0% | 17.5% |
| Measles | June 2019 | 9.8% | N/A* |
| Average Price Return | | 8.8% | 13.6% |

**Observations**

- **6-month** change of the S&P 500 Index following the start of the epidemic was positive in 11 of the 12 cases, with an average price return of 8.8%.
- **12-month** change of the S&P 500 Index following the start of the epidemic was positive in 9 of the 11 cases*, with an average price return of 13.6%.

the spread of the virus; it seems these companies are using worse case scenarios to ensure there are no missed earnings surprises should things get much worse. Just Wednesday, Microsoft Corp. said it will not meet its revenue guidance for its personal computing segment, due to suppliers "gearing up operations at a slower pace than anticipated".

As stated last week, the effects of the Coronavirus on global economic activity are simply forecasts and predictions at this point. Depending on the severity of the impact on business operations, which would depend on an out of control spread of the virus, we simply do not know for sure what the outcome will be. We have heard economists and analysts predict anything from "not much effect" to "serious disruptions in global economic activity", which would be the most alarmist view. Economists and analysts are not health care professionals, so you have to take their comments with a grain of salt. Again, the range of possibilities will depend with a high correlation to the spread of the sickness, and no one knows the extent of the epidemic.

As financial advisors, it is not in our expertise to predict if the spread of the virus will continue, subside, or if an effective treatment and/or vaccine will be developed in the short-term but what we can and have done is structure portfolios ahead of time to mitigate the effects of these types of market environments. The point is that these are the times when asset allocation diversification matters most, to ensure that when volatile stock markets begin falling, you are holding other positions to mitigate the severity of the downturn beforehand.

We close out our monthly market commentaries with the statement, ***"Always keep in mind that fear, panic and optimism are not investment strategies, but rather emotions that drive short-term markets"***, this is definitely the time to keep this in mind as fear and panic have definitely come to the markets.

Please contact Lifestyle Asset Management, Inc. at (281) 612-2035 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources: S&P Dow Jones Indices website (us.spindices.com) MSCI Barra website (www.mscibarra.com)
Worldometer website (worldometers.info/coronavirus/) First Trust "Epidemics – 2020"