From the desk of the CIO
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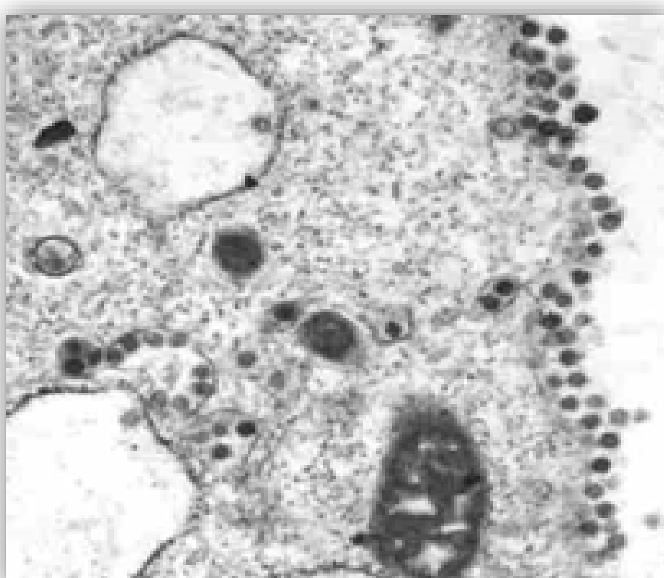
Coronavirus, Bernie & Volatility

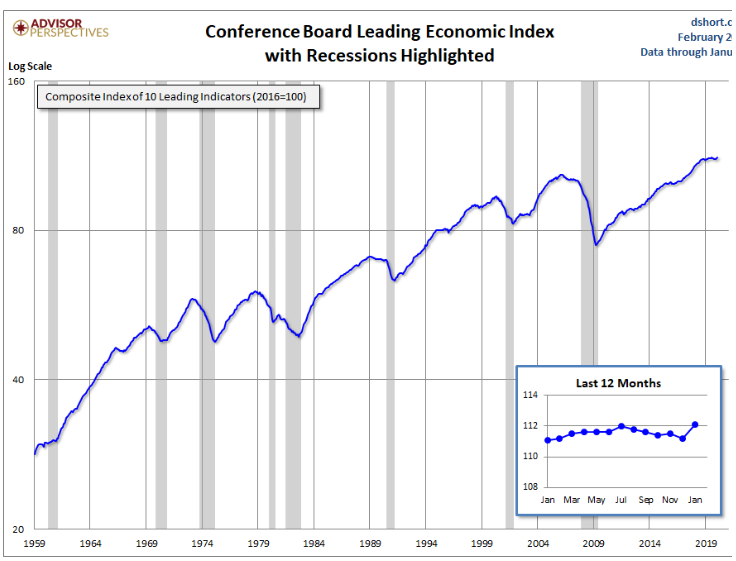
The picture below is of the microscopic view of the current Coronavirus from the University of Hong Kong. Hard to believe something so small would wipe trillions of value from the World's equity market in the last three sessions. But then again, in the short run stock prices are subject to the fear and greed emotions of investors, and the influence recently has been fear. Since late last week, the fear of Coronavirus and the popularity of a potential Bernie Sanders nomination in a somewhat overvalued stock market has caused the latest downdraft in prices, to the tune of about 8% from fresh market highs just one week ago. The coronavirus outbreak has disrupted business supply chains and with massive quarantines in place in China, Italy, South Korea and other countries, people are doing less and spending less globally. Investors are attempting to guess what the impact **MAY BE**. I say *may be*, because nobody really knows the economic impact yet.

Senator Bernie Sanders is currently leading the race for the Democratic nomination for the Presidency after the results of the Democratic caucuses in Iowa, New Hampshire and Nevada. No matter your political leanings, you have to admit Senator Sanders has some, well, very strange ideas considering he is running for the highest office in the greatest democracy the world has ever seen. The uncertainty he poses, if elected makes market participants a bit nervous.

The latest news of the spread of the Coronavirus to new countries came as new all-time highs were reached for many markets. Even absent the virus, a correction was becoming more likely with prices moving much higher in a short period of time.



While the last few days have been attention getting, we are not overly concerned about the economy, especially here in the U.S. Prior to the virus outbreak, world economies were emerging from a global slowdown in economic activity, largely due to the trade war with China. In particular, the U.S. economy was looking good. January's reading of the Index of Leading Economic Indicators (LEI) by the Conference Board was substantially higher than was expected (see chart below). Looking at the twelve month inset chart, you can clearly see how significant the leading indicators included in the index rallied in January. This reliable leading indicator is not exactly "on-fire", but it is also not telegraphing recessionary signals at the present time, as it continues moving in the right direction indicating economic expansion is likely. Of course, we acknowledge things look good until they don't so continued monitoring is necessary as the current health and news cycles evolve.



It's important to maintain discipline, and remain data dependent, as investors assess the impact from the virus. Historically, outbreaks, such as SARS, swine flu and the like, have had little or only brief effect on economic activity and the stock market. Some commentators have stated, "this time is different", but there is no tangible evidence of this. It's all conjecture at this point. To put some perspective on the situation, total Coronavirus deaths reported worldwide so far are about 2,700. That is unfortunate, but in the 2019-2020 flu season here in the U.S. alone there were 8,200 deaths and over 15 million cases of the flu. Granted the mortality rate from Coronavirus is higher than that of the typical seasonal flu, there is also evidence in the form of a drop in the number of active cases in the last couple weeks that the spread may be slowing overall, even if new countries are reporting cases.

High quality bonds have risen in price as stocks have fallen, a sign of a healthy, orderly market. Investors in diversified portfolios won't feel the full impact of the drop in stock prices compared to those who are "stock only" trading on the S&P 500 all stock index.

There is reason to be cautious in this environment. The Coronavirus will likely depress trade with China and could temporarily be a drag on U.S. economic growth. U.S. based companies who do business in China will definitely be affected. However, once the virus subsides, there will be catch up to do. Human toll aside, the second half of the year could see accelerating economic growth as we pick up where we left off pre-Coronavirus.

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