

## Coronavirus and Recent Market Volatility Stembrook Brief – February 2020

In this Stembrook Brief, we provide highlights of what we currently know about the Coronavirus and the disease named COVID-19. We discuss how it might impact investments and society as a whole as well as potential impacts, positive and negative, on your finances.

As in other situations where there are many questions and not enough answers, knowledge is power. We encourage you to consult credible sources of information (see links at the end of this brief) for updates on the progress of the outbreak. As always, please don't hesitate to contact us if you have any specific questions or concerns.

### Background

#### *What is COVID-19?*

COVID-19 is a pneumonia-like illness first contracted by humans in the Chinese city of Wuhan. It is believed to have been contracted in a live animal market. According the World Health Organization (WHO), as of February 25<sup>th</sup>, there have been 80,239 confirmed cases and 2,700 confirmed deaths, with the vast majority of cases occurring within the Hubei province of China.<sup>1</sup>

#### *What are the symptoms of COVID-19?*

According to the World Health Organization, "The most common symptoms of COVID-19 are fever, tiredness, and dry cough. Some patients may have aches and pains, nasal congestion, runny nose, sore throat or diarrhea. These symptoms are usually mild and begin gradually. Some people become infected but don't develop any symptoms and don't feel unwell. Most people (about 80%) recover from the disease without needing special treatment. Around 1 out of every 6 people who gets COVID-19 becomes seriously ill and develops difficulty breathing. Older people, and those with underlying medical problems

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like high blood pressure, heart problems or diabetes, are more likely to develop serious illness. About 2% of people with the disease have died. People with fever, cough and difficulty breathing should seek medical attention.”<sup>2</sup>

#### *How does the virus that causes COVID-19 Spread?*

According to the US Centers for Disease Control and Prevention (CDC), "The virus is now spreading from person-to-person. It's important to note that person-to-person spread can happen on a continuum. Some viruses are highly contagious (like measles), while other viruses are less so. Currently, it's unclear how easily or sustainably this virus is spreading between people.”<sup>3</sup>

#### *Can someone who has had COVID-19 spread the illness to others?*

According to the CDC, "The virus that causes COVID-19 is spreading from person-to-

person. Someone who is actively sick with COVID-19 can spread the illness to others. That is why CDC recommends that these patients be isolated either in the hospital or at home (depending on how sick they are) until they are better and no longer pose a risk of infecting others."<sup>3</sup>

*Is it a pandemic?*

The outbreak was declared a Public Health Emergency of International Concern by the WHO on January 30<sup>th</sup>, 2020. The WHO has not declared COVID-19 a pandemic at the time of this writing.<sup>4</sup>

Below is a map of the outbreak's known spread as of February 25<sup>th</sup>, 2020 from the WHO.<sup>5</sup>

*Is there a vaccine or known cure?*

According the World Health Organization, "Not yet. To date, there is no vaccine and no specific antiviral medicine to prevent or treat COVID-2019. However, those affected should receive care to relieve symptoms. People with serious illness should be hospitalized. Most patients recover thanks to supportive care.

Possible vaccines and some specific drug treatments are under investigation. They are being tested through clinical trials. WHO is coordinating efforts to develop vaccines and medicines to prevent and treat COVID-19.

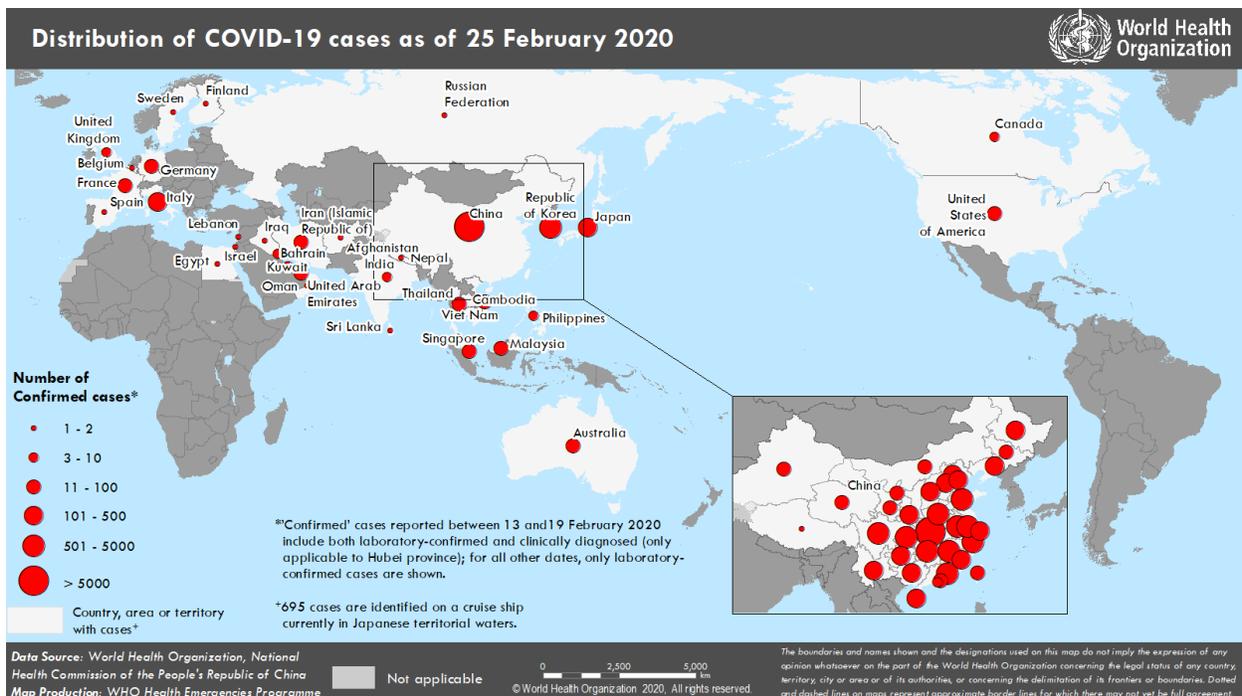
The most effective ways to protect yourself and others against COVID-19 are to frequently clean your hands, cover your cough with the bend of elbow or tissue, and maintain a distance of at least 1 meter (3 feet) from people who are coughing or sneezing."<sup>2</sup>

*What can I do?*

Keep up to date with information from credible sources including the WHO, CDC and local authorities. (see links at the end of this brief)

**Markets**

Since Wednesday, February 19<sup>th</sup> global equity markets have fallen -6.4% as measured by the MSCI All Country World Index (ACWI). Bond markets have rallied, the Bloomberg Barclays Aggregate Index is up 1% through Tuesday, February 25<sup>th</sup> as investors flock to safe haven assets.



*What has changed?*

Until a few days ago, the virus seemed to be fairly well contained in China and there were hopes of a slowing trajectory of new cases. As of a few days ago, health officials are seeing a sharp rise in cases in South Korea, Iran and Italy, spiking concerns that the virus is spreading more broadly.

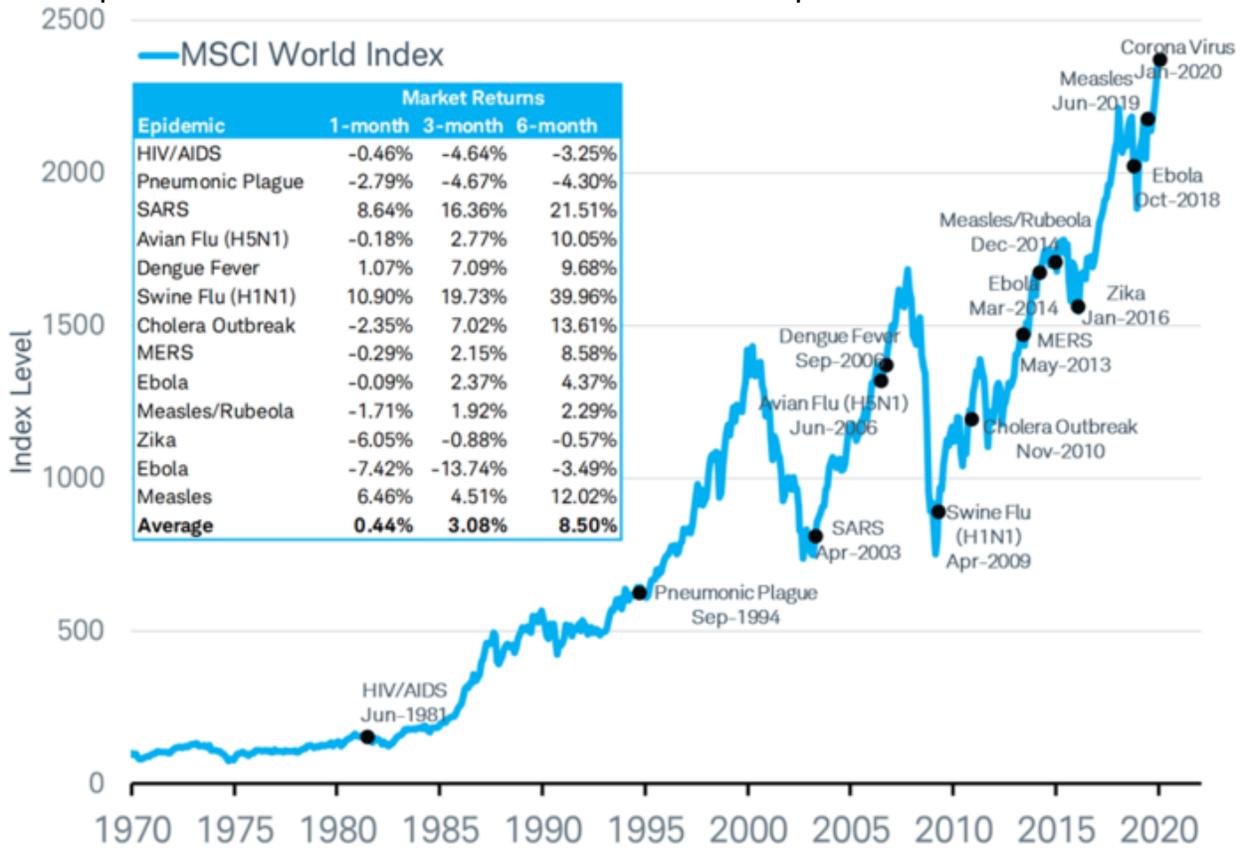
*What do we know about how this might impact markets?*

Health emergencies can have a real impact on economies and corporate profits. From fewer bookings on cruise ships to lower production in factories and the direct costs of combating the outbreak, the impact is real and could be protracted.

Financial markets react to these changes in expected economic output. Stocks tend to decline on expectations of lower profits while safe havens such as bonds and gold tend to hold their value or even appreciate.

In the following chart, we note a study of past epidemics and their impact on stock markets published by Charles Schwab’s Center for Financial Research. In a summary they explain that, “If governments can manage to contain the coronavirus, and it follows a pattern similar to other epidemics tracked by the World Health Organization in the past, the effect on markets could be relatively short-lived. Historically, the number of confirmed cases in various epidemics typically has risen sharply for eight to 10 weeks, then peaked. A short-term dip in stocks has tended to be followed,

Past epidemics have tended to have a short-term impact on stocks



Note: MSCI World Index scale is reflected in the left vertical axis.  
 Source: Charles Schwab, Factset data as of 2/21/2020. Past performance is no guarantee of future results  
<https://www.schwab.com/resource-center/insights/content/market-volatility>

after the peak, by continuation of the upward trend.”

In another study, investment research firm Ned Davis Research finds a similar pattern. In their review of global health emergencies including SARS (2003), Bird Flue (2004), Swine Flu (2009), Wild Poliovirus (2014), Ebola (2014) and Zika Virus (2016) they find that the global equity market tends to bottom around the time that the World Health Organization announces a Global Health Emergency.

History tends to be a good guide in many cases when trying to understand a developing situation. That said, this situation is unique and could play out differently. We will continue to monitor daily developments.

### Looking for Opportunities

Volatility creates opportunities. These may be found within your portfolio, in which case we will take appropriate actions. Opportunities may also be found in your broader finances. For instance, if you have been considering refinancing a mortgage or putting money to work in long-term equity investments, this might be a good time to revisit those plans. Please contact us to discuss any such situations.

### Further Reading

Q&A

<https://www.who.int/news-room/q-a-detail/q-a-coronaviruses>

US Centers for Disease Control and Prevention

<https://www.cdc.gov/coronavirus/2019-ncov/index.html>

World Health Organization

<https://www.who.int/emergencies/diseases/novel-coronavirus-2019>

Daily Situation Reports from WHO

<https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports/>

### Remember Your Plan

As we say quite often, shocks like this are to be expected. We don't know when they will happen, or what will spark them, but they are a normal part of investing. Market moves, both up and down, are assumed when constructing your Strategic Wealth Plan.

Please do not hesitate to reach out to us if you would like to discuss COVID-19 or potential implications for your investments or broader finances. We are always here to talk.

As always, we thank you for your trust and appreciate your continued confidence in our investment management and advice.



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## Footnotes

1. [https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200225-sitrep-36-covid-19.pdf?sfvrsn=2791b4e0\\_2](https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200225-sitrep-36-covid-19.pdf?sfvrsn=2791b4e0_2)
2. <https://www.who.int/news-room/q-a-detail/q-a-coronaviruses>
3. <https://www.cdc.gov/coronavirus/2019-ncov/faq.html#disease-basics>
4. <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/events-as-they-happen>
5. <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports/>

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Important note regarding Stembrook's capital market expectations.

The capital market expectations developed by Stembrook Asset Management are estimates of both a central tendency of asset class behavior and a probable range of asset class behavior over a long-term horizon. These estimates are one of many inputs used in the portfolio construction process, and should not be used independently. These expectations should not be construed as the returns that will be achieved, but merely those that may be achieved if certain assumptions hold true.

Also note that each client's portfolio may differ given specific goals and constraints applied to the portfolio construction process.