FNBC BANK&TRUST
WEALTH MANAGEMENT

Coronavirus Fears Drive Markets Lower

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Assessing the Recent Market Selloff

On Monday, February 24, global equity markets sank more than three percent on renewed coronavirus (COVID-19) fears, following reports of a surge in cases in Italy, South Korea and Iran. The S&P 500 Index, which had hit a record high the week before, slumped 3.4 percent, marking its worst one-day performance since February 2018.

On Tuesday, Dr. Nancy Messonnier, Director of the National Center for Immunization and Respiratory Diseases, said in a news briefing, “It’s not so much of a question of if this will happen anymore but rather more of a question of exactly when this will happen…We are asking the American public to work with us to prepare, in the expectation that this could be bad.” Following the briefing, equity markets sank further as investors grappled with the potential economic challenges presented by the spreading coronavirus.

Global equities finished the two-day rout more than six percent lower; the S&P 500 Index fell 6.28 percent, marking its worst two-day slide since August 2015. Amid the heightened market volatility, investors fled to the safety of Treasury bonds, pushing down yields. The 10-year U.S. Treasury finished at 1.328 percent on February 25, breaking the previous all-time low established in July 2016 following the U.K. vote to leave the European Union. The 30-year U.S. Treasury settled on Tuesday at 1.849 percent, just slightly above the all-time low it set the day before.

Is the Coronavirus the Only Factor Driving Recent Market Volatility?

While the coronavirus is the main culprit behind the recent selloff, there are other factors that have likely also contributed to market volatility: the upcoming 2020 presidential election, elevated equity valuations and the inverted yield curve.

This last factor has given investors additional pause, as an inverted yield curve has historically been a strong predictor of a future recession, with the signal preceding each recession since 1950 with only one false positive during that time. With the precipitous drop in the 10-year Treasury yield, the yield curve is inverted yet again, with the three-month U.S. Treasury (1.53 percent) now yielding more than the 10-year Treasury (1.33 percent).

Are the Recent Market Declines Unprecedented?

While single-day declines greater than three percent are fairly uncommon, investors should recognize that market pullbacks are a normal part of longer-term market cycles. In fact, since 1980, the S&P 500 Index has had an average intra-year decline of 13.8 percent (source: JPMorgan).

While investors may have been caught off guard by the amount of recent declines over such a short period of time, viewing the pullback in the context of typical drawdowns shows that such declines are <u>not</u> uncommon.

How Should Investors Respond?
Wall Street Journal contributor Morgan Housel once remarked, “All past market crashes are viewed as opportunities, but all future market crashes are viewed as risks.” Such an observation only becomes clear in hindsight. In the midst of heightened market volatility, investors may be tempted to make significant tactical moves out of fear over further market declines.

While market volatility is currently elevated and is likely to remain so, we would caution investors against making broad changes, as such reactive decisions are often ill-timed and can impair the effectiveness of a thoughtfully designed investment plan.

We are closely monitoring the still-unfolding situation, though we do not currently find compelling reasons that would justify overriding our asset allocation methodology despite elevated uncertainty. FNBC Bank & Trust continues to believe that investors should be patient and adhere to a well-constructed, diversified investment portfolio anchored to long-term goals and time horizon.

For more information, please contact any of the Wealth Management professionals at FNBC Bank & Trust.