

Wentz Weekly

February 27, 2020

Market Thoughts Market Impact from the Coronavirus



Investment management for your lifetime

- The S&P 500 was up 35% since the beginning of 2019 until the peak on February 19th, and up 18% over the last six months. The run was unsustainable, conditions were extremely overbought and the market was waiting for a reason to sell off.
- The market has taken risk off the table after reports over the weekend there was an increase in coronavirus cases in countries outside of China. Adding to this was the Center for Disease Control and Prevention saying it is inevitable and not if, but when the virus will spread to the U.S, which came as a surprise to investors.
- As a result, investors continue to rush to safe haven assets, evident by the 10-year U.S. treasury yield falling to 1.28%, an all-time low and eclipsing the previous low that was set in 2016 after the Brexit vote.
- If there is any economic effect in the U.S. it will most likely be short term and nothing significant and is unlikely to push the economy into a recession. Economic indicators, such as employment, housing, manufacturing and inflation continue to point to expanding economic conditions.
- Any issue will be supply side related and not demand. We believe any production activity lost will be made up in future months, which is why we think it will be short term.
- If you have a longer-term horizon use the pullback as an opportunity to buy beaten up names that are continuing to see earnings growth.
- Although very cheap after the last few weeks, we would avoid all travel stocks as they will most likely continue their decline (airlines, cruise lines, hotels/resorts, casinos, movie theatres etc)
- We will probably have a bounce back day here and there, but expect continued volatility, a theme we laid out in our Outlook Meeting, which we expect for the whole year.

Looking Ahead

Expect continued volatility (both up and down) in the markets over the next several days and even weeks as the markets digest the most recent news. Do not be surprised if we start seeing companies come out with downward revisions to 2020 forecasts. President Trump held a news conference last night in which he appointed Vice President Pence to lead the country's coronavirus response.

Earnings reports continue this week, mainly with retailers, including Best Buy, J C Penny, Foot Locker, Anheuser – Busch InBev, and Dell Technologies. Investors will pay close attention to commentary from management. In addition, we will see the reports from the Bureau of Economic Analysis for the second revision on fourth quarter GDP, along with the BEA's report on personal income and outlays for January. As mentioned, expect a number of companies to announce warnings on their forecasts for the next couple quarters.

If you have any questions or concerns, please do not hesitate to reach out.

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