



CORRIGAN FINANCIAL, INC.

Market Update: February 2020

Global stock markets fell 8% in February, as investors reacted to the economic and humanitarian concerns surrounding the coronavirus epidemic.

The coronavirus represents something new: a non-financial, exogenous force whose impact on the global economy is huge and unknowable.

Otani/Santilli – WSJ 2/28/20

The S&P 500 Index closed at a record high on February 19 ... but by the end of the month, it had suffered its fastest double-digit decline on record. Over the course of seven trading days the index declined 13% and drained \$3.6 trillion in market value. To put it another way, the S&P 500 gave back the last four months of gains in just seven trading days. Seeking safety, traders sprinted to the bond market, driving interest rates to all-time lows.

If the stock market had been priced for an earnings acceleration in 2020, by the end of the week it was priced for no growth.

Ben Levisohn – Barron's 2/29/20

Have we seen anything like this before? Stocks fell 12% during the week following the September 11 attacks in 2001. In 2003, the markets declined 13% in response to the SARS outbreak. SARS infected 8,100 people and killed 774. In both cases, the markets soon recovered their losses.

In 2003, China's economy represented only 4% of the world's GDP. Since then, airline traffic has more than doubled, and international trade is up 250 percent. Today, China's economy is 16% of global GDP and accounts for nearly one-third of all global trade.

It's a different kind of event because we're reacting to what might happen, whereas in the (2008/2009 financial) crisis we were reacting to what was actually going on in real time. It's almost impossible for investors and analysts to make any sensible predictions as to what might happen – we're very much flying blind.

Peter Dixon, Commerzbank – WSJ 2/28/20

The coronavirus has infected tens of thousands in over 50 countries and killed nearly 3,000 people. It is highly communicable. Many do not know they are sick, while about 20% get extremely ill. Mortality rates are estimated at nearly 3 percent, with higher rates among older people with other health challenges.

We live in a global world. Everyone's going everywhere all the time. Nothing is contained in the ways it used to be. So it's serious: A lot of people will be exposed and a significant number will be endangered.

Peggy Noonan – WSJ 2/27/20

We appear to be in uncharted territory. No one knows if the coronavirus is a short-term inconvenience or a longer-term threat. There are two things we do know: The coronavirus will eventually pass, and the global economy will recover.

This week's market selloff is a warning but it isn't cause for panic. We simply don't know how much harm this coronavirus will do. Investors who keep a cool head will be rewarded, and voters will reward politicians who do the same.

The Editorial Board – WSJ 2/28/20

The Federal Reserve signaled that it is prepared to cut interest rates to help support the effects of a widening global slowdown. The markets fully expect a quarter-point reduction at the Fed's March meeting. Current concerns, however, are about *supply* chain interruptions ... their primary origin is not economic. Fed rate cuts are used to stimulate *demand*. Rate cuts generally won't give much relief to a *supply-side* shock.

Using monetary policy to counteract the economic effects of the coronavirus outbreak would be a bit like using a hammer to try to unscrew a bolt. But if a hammer is the only tool you have, you use it.

Justin Lahart – WSJ 2/27/20

China will continue to be the world's engine for economic growth. The country's GDP growth rate slowed to a three-decade low of 6.1% last year. Still, according to the Organization for Economic Co-operation and Development, that was enough to provide 40% of the world's economic expansion.

That said, China's economy is going to take a big hit in the first quarter. Recent manufacturing and service sector measures are at levels below even those recorded

during the 2008 global financial crisis. Alternative indicators of economic activity (coal consumption, realtor data, port congestion) confirm that economic activity is at depressed levels. Most economists expect GDP growth rates to decline in the first quarter.

We all hoped for a V-shaped, rapid recovery, but given the uncertainty, it would be prudent to prepare for more adverse scenarios.

Kristalina Georgieva, IMF Managing Director – WSJ 2/29/20



The U.S. economic backdrop remains solid. Interest rates and inflation are at very low levels. Unemployment measures are at 50-year lows. Consumers have strong balance sheets. Banks are in solid shape ... and still lending.

“I’m not an epidemiologist,” people on Wall Street keep saying, before predicting how things will play out from here. As a certified *econoblatherologist*, I can confirm that they don’t really know. But if a U.S. recession is coming soon, it isn’t obvious.

Jack Hough – Barron’s 2/28/20

By now, I think we all know that *market-timing* is a loser’s game. Individuals who traded last week were speculators, not investors. If your portfolio was invested based on a planning framework, there was no need for action.

Stocks are inherently volatile. If they weren’t, they would perform more like bonds or cash. Investors are rewarded for taking on volatility risk. By adhering to plan, investors can capture these returns ... and still be able to sleep at night.

A great majority of our retired clients are invested in a balanced manner, with stock allocations somewhere between 40 – 60% of their total investable assets. If you do the math, you would find that bond and cash balances alone provide for 8 to 12 years of their cash flow needs. So, rest easy!

Disciplined investors always remain seated and buckle up when turbulence hits.

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