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## PERSPECTIVES, MARCH 2020

# Coronavirus

*After starting in mainland China, the coronavirus has steadily spread to over 100 countries and to every continent (excluding Antarctica). Investors have been acutely focused on infection and mortality rates, economic growth surveys, and announced downward guidance to corporate earnings.*

### Current events

More recently, severe swings in the stock market, coupled with plunging government bond yields, have resulted in a sudden intervention by the Federal Reserve. Although this volatility gives us pause, we continue to expect modest growth in the U.S. for the year, with a marginal impact from the coronavirus taking place in the first half, followed by a recovery in the second half. The OECD revised their 2020 global growth rate downward by 0.5% to 2.4%, while expecting a rebound in 2021 to 3.25%. However, as the virus remains uncontained, it is challenging to predict the full scope of the economic impact.

As of March 9, 2020, globally confirmed cases of the coronavirus have reached 109,591, with 80,735 of the cases located in China. Within mainland China, efforts to contain the virus have slowed growth rates of infection and the count of confirmed cases has begun to level off. Despite travel bans and quarantines, new cases outside of China are rising at an increasing rate, fueling investor concerns of a drop in economic output. South Korea, Iran, and Italy have witnessed sudden rises in infections and could serve as a source of infection for neighboring countries. Fortunately, mortality rates have remained low (near 3%) and cases within the U.S. have been limited thus far but could accelerate as more tests are made available.

### Market effect

With the virus spreading outside China, domestic stock markets fell into correction territory within one week of hitting all-time highs, the shortest turnaround time on record. The 10-year Treasury yield fell roughly 25 basis points over the same period, breaking through its all-time low of 1.32%. Globally, manufacturing sectors that struggled in 2019 from trade tensions are once again under pressure with surveys falling rapidly. These moves prompted the Fed to enact a 50-basis point "emergency" cut to the Fed Funds rate. As of the morning of March 9, the entire U.S. yield curve yielded less than 1%.

The last time the Fed cut rates outside of a regularly scheduled meeting was in October 2008 following the Lehman Brothers collapse. With financial conditions tightening and consumer confidence under threat, the Fed hopes to provide a cushion to any impact from the coronavirus. The efficacy of this action may prove inadequate as it is difficult to quantify how easier monetary policy fights a virus that has shut factories, caused supply chain disruptions, and restricted travel. Nonetheless, derived interest rate probabilities are pricing in an additional three cuts this year.

With our client portfolios in mind, fixed income returns have been strong year-to-date with the Bloomberg Barclays U.S. Aggregate Bond Index returning 5.71% through March 6, 2020. Precipitously declining interest rates have more than offset higher spreads for sectors such as corporate bonds. The challenge ahead is investing proceeds from maturities, interest payments, call activity, and client contributions at historically low yields. At this time, we expect positive growth in the U.S. to persist in 2020, see Perspectives: 2020 Outlook, and anticipate using this volatility as a buying opportunity, but our clients should prepare for lower yields and lower returns in the future.

*Please contact us should you have any questions regarding the above your investment portfolio in general.*

For more information,  
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