

It's Official, COVID-19 is a Pandemic
March 11, 2020



The World Health Organization (WHO) declared today that the coronavirus outbreak spreading around the globe can now be characterized as a pandemic. WHO Director Dr. Tedros Adhanom Ghebreyesus explained that the WHO is “deeply concerned by the alarming levels of spread and severity” of the outbreak. Ironically, at the same time that the WHO was making their declaration, Premier Xi Jinping of China declared the disease “basically curbed” and announced that there were only 10 new domestic infections reported in China on Wednesday.

The stock market didn't like the negative implications that this pandemic would have on the world economy and sold off hard, erasing the strong gains seen in yesterday's trading session. As of today's, close the Dow Jones Industrial Average is down 20.3% from its February 12th peak – attaining the dubious distinction of qualifying for a bear market designation. A bear market is confirmed when an index closes 20% or more below its most recent closing high. A breathtaking fall in essentially four weeks. The broader S&P 500 index is fairing slightly better dropping 19% since it's February 19th peak, which means it still hasn't closed below a level that would “earn” a bear market designation.

The WHO's announcement combined with continuing announcements of additional closures and travel restrictions roiled the market. Wednesday evening, President Trump addressed the nation and announced the suspension of travel for foreign nationals who have travelled to one of 26 European countries in the past 14 days. President Trump promised small business access to capital through the SBA and asked Congress for legislative action to provide payroll tax relief as well as other measures.

Quite interestingly, a notable change has occurred in the bond market since Monday the 9th. Until Monday, each time the stock market sold off, the bond market would rise. Whenever the bond market rises that means that the bond yields fall. In the face of uncertainty, generally investors sell stocks, they move their money into “safe haven” assets which are typically US Government bonds or gold. Until today, this pattern has held up. Trading sessions where the stock market is selling off, US Government yields have fallen and gold has risen. Today marked an interesting change to that pattern. While stocks sold off hard today, investors were not moving the funds into safe haven assets. Rather, bond investors also sold off both the 10 year and 30 year US Treasury bond and gold. In other words, investors weren't selling stocks to move to safe haven assets, on the contrary, stock investors and bond investors and gold investors alike sold opting instead to stockpile cash.

The following are the rates (*remember that when bond prices fall their yield rises*). A couple of trading session does not a trend make, but we will be watching this dynamic to see if investor sentiment toward risk is changing.

Date	US Treasury 5 year	US Treasury 10 year	US Treasury 15 year	Gold / OZ
9-Mar-20	0.46%	0.54%	0.99%	\$ 1,667
10-Mar-20	0.63%	0.76%	1.28%	\$ 1,653
11-Mar-20	0.66%	0.82%	1.30%	\$ 1,635

source: United States Treasury website and goldprice.com

We anticipate more negative news about the coronavirus as it spreads worldwide. However, the stock market is a forward-looking organism and will bottom before the peak of the COVID-10 outbreak. It is painful for sure, but the market is seeking a bottom. Focus on long term investment strategies are paramount in markets like these. It's easy to say and harder to do, but this focus helps investors avoid emotionally driven decisions that erodes long term portfolio values. As events develop, we will continue to communicate with you. We can't control the stock market, but we can sure control our efforts to provide timely and hopefully helpful communication to you.