VITUCCI INTEGRATED PLANNING

INVESTMENT MARKET COMMENTARY

Mid-Quarter Investment Market Commentary – 1st Quarter 2020

February 26, 2019

To paraphrase Frank Knight, the early 20th century University of Chicago economist, “risk” applies to situations where we do not know the outcomes but can reasonably measure the odds; whereas “uncertainty” applies to situations where we simply do not have sufficient information to confidently measure the odds. And it is in the balance between risk & uncertainty that we find ourselves now mid-way through the first quarter of the year.

Rarely, do I receive consensus reports from our research & management investment partners. However, as 2020 began, the news across my desk was that of positivity, with a very rosy outlook for both the economy & investment markets for the coming year. As January played out, the typical relationships between bonds, stocks, and gold had been broken with all three asset classes rising in tandem. Stock prices had been rising on relatively good economic news domestically, with building permits rising to a 12-year high, very low unemployment, and consumer confidence at high levels. The market outlook became much cloudier in late January due to the uncertainty caused by the coronavirus outbreak. One can easily argue that the coronavirus epidemic in China created a textbook case of uncertainty.

As investors, we should remember that markets are mechanisms for rapidly digesting large volumes of new information into asset prices. And it’s in times like these--when market volatility increases--that it’s prudent to step back, catch our breath, and evaluate what we know and don’t know.

As of Tuesday Feb. 25, there were about 80,000 reported cases of coronavirus globally. To put that in context, the influenza virus infects about 3 to 5 million people globally in any given year. But it’s also highly likely that coronavirus cases are underreported due to a lack of diagnostic capabilities in many countries, or, perhaps, due to bureaucratic issues or public relations concerns in authoritarian countries such as China and Iran. We also know that the virus’ mortality rate is approximately 2.5%. This compares to a mortality rate of 9.6% for SARs (2003).

Any attempt to forecast the economic impact of the virus may ultimately prove futile but we likely know enough to make an educated guess. Economists from Deutsche Bank estimate the coronavirus will reduce China’s GDP rate by about 2%, about twice the decline experienced during the SARS pandemic in 2003 (which also originated in China). This doubling of the estimated economic impact of coronavirus (relative to that of SARS) makes sense; China’s economy today is much larger than it was in 2003.

With respect to the United States, economists predict the virus will erode GDP growth by about 0.1% in 2020, about 0.03% more than the SARS pandemic did in 2003. Goldman Sachs reduced its forecast for US GDP growth to an annualized rate of 1.2% in Q1 but predicted growth will subsequently return to its current rate of about 2% later this year.

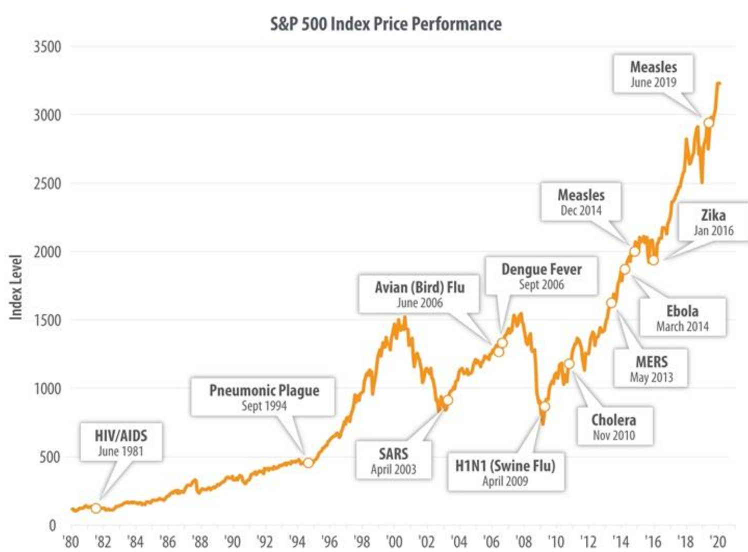
In times of uncertainty, it can be helpful to look for corollaries in our history. Over the last 40 years, investment markets have been impacted by more than 10 epidemics or outbreaks. The chart below (provided by First Trust) offers some context for market movement around these outbreaks.

Epidemics and Stock Market Performance

Since 1980

First Trust

There are many factors that can impact stock market returns, but one concern of investors today is how the stock market will be impacted by a major epidemic or outbreak. Below we look at the historical performance of the S&P 500 Index during several epidemics over the past 40 years. We believe looking at the market's overall resiliency through several major epidemics can give us perspective on the benefits of investing for the long-term.



Epidemic	Date	S&P 500 6-Month % Change	S&P 500 12-Month % Change
HIV/AIDS	June 1981	-6.6%	-16.5%
Pneumonic Plague	Sept 1994	8.2%	26.3%
SARS	April 2003	14.6%	20.8%
Avian (Bird) Flu	June 2006	11.7%	18.4%
Dengue Fever	Sept 2006	6.4%	14.3%
H1N1 (Swine Flu)	April 2009	18.7%	36.0%
Cholera	Nov 2010	13.9%	5.6%
MERS	May 2013	10.7%	18.0%
Ebola	March 2014	5.3%	10.4%
Measles	Dec 2014	0.2%	-0.7%
Zika	Jan 2016	12.0%	17.5%
Measles	June 2019	9.8%	N/A*
Average Price Return		8.8%	13.6%

Observations

- **6-month** change of the S&P 500 Index following the start of the epidemic was positive in 11 of the 12 cases, with an average price return of 8.8%.
- **12-month** change of the S&P 500 Index following the start of the epidemic was positive in 9 of the 11 cases*, with an average price return of 13.6%.

Source: Bloomberg, as of 2/24/20. Month end numbers were used for the 6- and 12-month % change. *12-month data is not available for the June 2019 measles. **Past performance is no guarantee of future results.**

Over the last few days I have had a few emails asking "what is our plan for this?". My answers will probably sound familiar:

1. First, don't panic. Be careful not to make investment decisions based on hype or the unknown; investing is always about the future, which is fundamentally unknowable. And we know that investor returns suffer significantly when investors make long-term investments based on short-term information. We help our clients plan for their long term goals, and we need to ensure that your plan is not side-tracked by any one event.

2. Second, investors should remain globally diversified with a healthy allocation to high-quality fixed income. Rebalancing portfolios by selling bonds, buying stocks or putting idle cash to work is not a terrible idea.

3. Finally, investors would benefit from having a long-term financial plan in place that includes an action plan for how to endure market volatility. This will include a commitment to an immediate cash allocation, an understanding of your cash-flow & income sources, and a vision for coming expenses beyond your regular spending. The mere presence of having an action plan in place before its needed is often by itself enough to calm rattled nerves.

While the events in the opening months of the year may not have "stuck to the script," I think we can all agree that volatility will be our companion through 2020. As the impact of coronavirus moves from uncertainty to risk later in the year, what is sure to be a contentious US Presidential election will come into view.

Remember your goals. Trust your plan. Should you have any questions or concerns, please don't hesitate to contact me.

Sincerely,

Jason

Jason Vitucci, CFP®, EA
Financial Advisor

Asset Class Performance Trailing 12 months through February 24, 2020

S&P 500 (US Large Cap)	+22.67%
MSCI EAFE (Developed International)	+10.43%
MSCI Emerging Markets	+5.85%
Barclays Agg Bond (US Corporate Bonds)	+10.30%
Crude Oil	-6.29%
Gold	+24.19%

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Investing involves risk. This material does not constitute any representation as to the suitability or appropriateness of any security, financial product or instrument. There is no guarantee that investment in any program or strategy discussed herein will be profitable or will not incur loss. Investors should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that security values may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not a guide to future performance. Individual client accounts may vary. Investing in any security involves certain non-diversifiable risks including, but not limited to, market risk, interest-rate risk, inflation risk, and event risk. These risks are in addition to any specific, or diversifiable, risks associated with particular investment styles or strategies.

High quality investments are investments in securities issued by companies with the propensity for higher than average characteristics including higher and more consistent profitability, stronger balance sheets, and higher dividend growth. The primary diversifiable risk is opportunity risk.

International investing is an investment strategy where investors chose global investment instruments. International investing can be accomplished utilizing a variety of investment vehicles including, but not limited to, ETFs, American Depository Receipts, or a direct investment in a foreign stock exchange. Diversifiable risks include, but are not limited to, political risk and currency risk.

Bonds are a type of debt instrument issued by a government or corporate entity for a defined period of time at a fixed interest rate. Bonds may be subject to unsystematic risks including, but are not limited to, call risk and reinvestment risk. High yield bonds, or junk bonds, will be subject to an even greater degree of these risks as well as subject to the credit risk. Commodity instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargo, tariffs, and international economic, political, and regulatory developments.

A client's risk budget is derived from the client's specific answers to a risk assessment, which establishes the client's financial goals, ability to handle risk, and overall investment time horizon. The individual client risk budget is expressed as a percentage of the risk of a well-diversified equity portfolio. CLS Investments & Cetera Investment Management contributed to this commentary.

Please remember that diversification and asset allocation do not guarantee a profit nor protect against loss in a declining market. They are methods used to help manage risk.

The Dow Jones Real Estate Indices are part of the Dow Jones Global Indices* family, a comprehensive yet investable index series that provides 95% market capitalization coverage of 51 countries. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The DXY is the U.S. Dollar Index. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The MSCI Small Cap Index target 40% of the eligible Small Cap universe within each industry group, within each country. MSCI defines the Small Cap universe as all listed securities that have a market capitalization in the range of USD200-1,500 million.

**Capital Group, First Trust, and Mercer research contributed to this commentary.

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