Investment Strategy Update Regarding the Coronavirus – February 24th, 2020

U.S. financial markets woke up this morning focused on news over the weekend that the number of coronavirus cases were accelerating outside Asia, particularly in South Korea and Italy. The economic growth-damping effects of the virus threaten to negatively impact much of the world. Global manufacturers are linked to China by a supply chain that relies on Chinese factories to produce many intermediate and finished goods. With fears of contagion keeping Chinese workers home, production is getting strained.

Financial markets responded this morning with a knee-jerk, broad-based risk-off move. All risk-based assets declined in price while safe-haven assets such as Gold and U.S. Treasuries rallied. The panic over the coronavirus will only subside when the number of new cases peaks. It is far from clear whether or not we are close to the peak. Viruses often become less lethal as they mutate because a virus that kills its host is also a virus that kills itself. Unfortunately, in a world of mass travel, a virus can spread across the globe before it has time to lose potency.

At this point, we believe the virus represents a transitory shock to the global economy and financial markets. Risk-Based Assets will only bottom when the number of new cases peaks. It is not clear that we have reached this point yet. In times like this, having a well-diversified asset allocation strategy that contains asset classes which are non-correlated to risk such as gold and high quality bonds, helps to balance the volatility from stocks. Until the rate at which new coronavirus cases are diagnosed begins to decline, we will be cautious as we continue to analyze the latest developments.

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