Monthly Commentary 5th March 2020

February was a horrible month for risk assets and a great one for safe havens. Equities tumbled dramatically. The US, Europe, UK and Japan all fell 8-10%. Emerging markets fell only half as much with China holding up reasonably well. US Treasuries rallied more than 2% while commodities also fell hard, with energy in particular falling by double digits. The USD was stronger and gold was flat.

Who saw that coming?

It's fair to say that market participants did not expect such a violent reaction to the unfolding Coronavirus epidemic. After all, for the 7 weeks of 2020 up to February 19, the market was making multiple all-time highs, even though they were well aware of the economic devastation being caused to China, the world's second largest economy.

Well, markets are there to frustrate the maximum number of investors, and they have done it once again.

The best description of the market implications that we have come across was in the Wall Street Journal a few days ago:

"The coronavirus represents something new: a non-financial, exogenous force whose impact on the global economy is huge and unknowable. The smartest minds on Wall Street and beyond are having difficulty discerning whether the epidemic will end up being a short- term disruption, or a more sustained and lasting threat that upends the lives of millions of people around the world.

Will the offices and factories and schools of America and Europe close up like the ones in China did? Will the streets empty out and shops shutter their doors as people retreat to their homes? How long will it take for scientists to understand the workings of the virus and develop medicines that can slow it down? Until the answers to some of those questions become clearer, traders say, the market could have trouble finding a bottom".

The fact is there are too many unknowns. Below are the headlines of two of the major articles that appeared in Barron's this week (Barron's is the weekly sister publication of the Wall St Journal).

ECONOMY AND POLICY | THE ECONOMY

Why U.S. Markets Could Recover Quickly From Coronavirus Hit

Plenty of economists say the U.S. economy was doing just fine before the outbreak, and many of them still see a limited impact on the U.S. If the Fed cuts rates, the market may get some unexpected juice for a quick recovery.

MARKETS | THE TRADER

This Downturn Might Just Be Getting Started

After a tumble like this past week's, a rally could be in the offing. But if the coronavirus triggers an economic slowdown, all bets are off.

Both articles make their case eloquently and it is easy to agree with both. That's exactly the problem we all face. There is no right or wrong other than in hindsight. So, it is better to take a step back and see how previous major events affected markets – see below graphic. You can easily draw your own conclusions that this too shall pass.

This table shows how the S&P 500 performed during and after significant macro events since the 1940s.

Event	Event reaction dates	Percent of gain/ loss during event	S&P 500 percentage of gain/loss after last reaction date: 1 month later	1 year later	5 years later	10 years later
Fall of France	5/9/40–6/22/40	-18.2	3.1	5.2	15.9	13.2
Attack on Pearl Harbor	12/6/41–12/10/41	-6.9	4.5	16.0	18.1	17.1
Outbreak of Korean War	6/23/50–7/13/50	-11.1	9.5	42.0	27.6	18.4
Eisenhower heart attack	9/23/55–9/26/55	-6.6	0.1	11.8	8.5	11.6
Cuban Missile Crisis	8/23/62–10/23/62	-9.9	15.5	41.1	15.8	11.0
Kennedy assassination	11/21/63–11/22/63	-2.8	7.0	27.8	12.4	7.0
U.S. attacks Cambodia	4/29/70–5/26/70	-15.0	6.4	49.0	9.3	9.3
Nixon resigns	8/9/74–8/29/74	-13.4	-6.8	30.6	14.6	14.6
1987 stock market crash	10/2/87–10/19/87	-31.5	7.1	27.9	17.0	18.9
Gulf War ultimatum	12/17/90–1/16/91	-2.8	17.2	36.6	17.3	18.0
Gorbachev coup	8/16/91–8/19/91	-2.3	3.2	14.5	15.2	14.3
Collapse of Long-Term Capital Management	8/28/98–9/9/98	-2.0	-2.0	35.8	1.8	3.7
September 11 terrorist attacks	9/10/01–9/21/01	-11.6	11.3	-11.1	8.3	3.9
U.S. invades Iraq	3/18/03–3/31/03	-2.1	8.2	35.1	11.3	8.5
Collapse of Lehman Brothers	9/5/08–11/20/08	-39.1	18.3	48.8	21.5	15.8
U.S. debt downgrade by S&P	8/5/11–10/3/11	-8.0	14.9	35.0	17.0	—
2016 Brexit	6/23/16–6/27/16	-5.3	8.5	23.5	—	—

Historical references do not assume that any prior market behavior will be duplicated. Past performance does not indicate future results.

Source: Putnam Investments

What is important (as we have said many times in the past) is that your assets are quality, low-cost assets, well diversified and invested as per your tolerance to risk.

The Elgin Analysts' Team

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