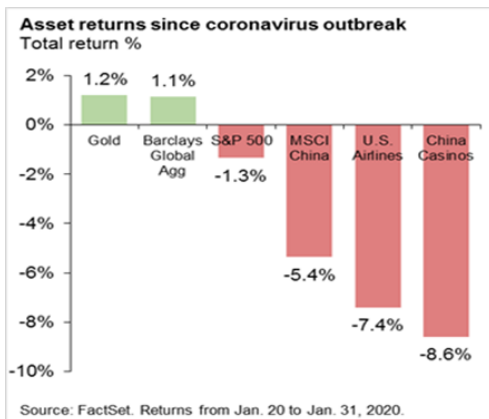




After the S&P 500® Index returned over 30% for 2019 and with the expectation that the U.S. and China would sign phase one of a trade deal, investors happily ushered in 2020. The Fed appeared to be on hold. Economic growth, although anemic, was positive in the United States. Corporations were set to post fourth quarter earnings and provide insight into 2020. Truly a pretty good backdrop for the beginning of the year.

Then a few news items about some kind of sickness in China began appearing in the press and broadcast on the airwaves. This flu with an odd beer-like name, coronavirus, was not going to be an issue, per initial reports, because the Chinese authorities had moved quickly to contain its outbreak. In addition, the flu was not going to be anything like the SARS virus, because it was much less lethal. Over the ensuing days and weeks the numbers of infected rose, deaths were reported and the breadth of the outbreak spread. Clips from the movies ‘Outbreak’ and ‘Contagion’ were used as lead-ins to news stories about the coronavirus. Planes were grounded, ships were held in harbor. In a word, it was bad. And the market reacted. Below is a chart of some of the price changes that occurred while news of the coronavirus became more and more top of mind for investors.



Of course, we are watching what is going on and estimating how the virus may be affecting commerce worldwide and impacting individual companies. That is our job, to weigh new information against the stocks we own and on the stocks we are considering for inclusion into our investment strategies. But we are also mindful of whence we came. Recall, coming into 2020, the markets were strong. One of the reasons for that strength was an indication that economies around the world were on an improving path. Below is an excerpt from FactSet, a data provider we use on a regular basis. It speaks to the improvement in the global Purchasing Managers’ Index (PMI). The PMI is an index of the prevailing direction of economic trends in the manufacturing and service sectors. The purpose of the PMI is to provide information about current and future business conditions to company decision-makers, analysts and investors.

Excerpt from FactSet:

Global PMI (Purchasing Managers’ Index) at nine-month high before virus outbreak:

In the lead-up to coronavirus outbreak, global PMI improved to nine-month high 50.4 in January from prior 50.1. Output and new orders registered faster growth while new export orders declined at slower pace. Notably, 14 out of 30 countries signaled expansion including US and China, while Eurozone, Japan and South Korea were in contraction. Commentary positive with no specific mention of coronavirus risks. Upswing in output index points to positive implications for actual manufacturing production.

No one knows what the outcome of the coronavirus will be. Questions about how long it will last or its impact on the world economy remain just that, questions. Again, we will carefully monitor and consider all information related to the coronavirus. It is important to remember, however, that we came into the year 2020 from a position of strength, with improvements seen across the globe.

As always, we will use our investment process to guide us in making decisions on the strategies we manage for our clients. We will also keep in mind what the economic backdrop was coming into the outbreak and see if there are any signs of overreaction on the part of the excited and sometimes short-term focused investment community.

We have four successful equity strategies – Large Cap, Small Cap, Dividend Select and Mid Cap. If you have questions on any of these options, please call us.

Sincerely,

Ken Crawford
Senior Portfolio Manager