OUR PERSPECTIVE ON THE CORONAVIRUS AND MARKET CONDITIONS

The Coronavirus outbreak has quickly turned investor sentiment upside down both in the U.S. and abroad. While the full impact of the virus remains extremely difficult to forecast, we know that when investors are unable to incorporate information into their outlook, dislocation will occur. That is exactly what is happening in markets this week. Unknown factors are challenging how investors feel about risk, and the result, so far, is a roughly 12% decline for U.S. equity prices since reaching all-time highs just last week. In times like these, it is important for us to remain calm, use these days as an opportunity to digest all relevant and available information, and make sure your portfolio is positioned for markets today and in the future.

Before diving into the economic effects of the virus, it is important to review just how strong 2019 was for global markets. After nearly a 20% decline in the fourth quarter of 2018, a perceived lull in geopolitical friction combined with accommodative monetary policy boosted global stock prices by 25% to 35% last year. On the bond side, a pivot in Federal Reserve monetary policy from interest rate hikes to interest rate cuts, strong demand for the asset class, and narrowing risk premiums bolstered fixed income returns. Not wanting to be left out, energy and precious metals logged their biggest annual increase in three years. Simply put, nearly every corner of global markets had a tremendous run.

Coming into 2020, we expected the U.S. economy to grow at a moderate pace, inflation to remain contained, and risk assets to perform soundly though likely not at the same pace as 2019. Markets were beginning to experience positive China and U.S. trade war rhetoric, less uncertainty around Brexit, and a historically strong labor market here in the states. Global central bank monetary policy was still accommodative. The Federal Reserve planned to hold rates steady, while allowing some balance sheet expansion, and it was our expectation that other key central banks would remain highly accommodative. All signs pointed to somewhat stronger global growth in 2020. The coronavirus outbreak will challenge this outlook.

Our investment mantra to '"preserve and grow" remains as important as ever. This is not a change we have made in recent days, but the way we invest at all times. As equity markets have expanded, so has our commitment to rebalancing, while shifting exposure out of equities and into fixed income and alternative markets. Yet in spite of Coronavirus uncertainty, we still see value and opportunity for growth in global equities. We view bonds as an important store of value for times like these, and consider alternative investments that are different than traditional stocks and bonds for their diversification benefits.

With the number of confirmed cases now over 80,000 globally, and a growing number of cases outside of China, the economic and societal impacts of this virus are not to be taken lightly. The sooner it is confidently contained, the quicker recovery in economic activity will be seen. However, the more the virus affects activity in other regions, the greater the expected impact on corporate earnings. While the declines this week have been sharp, it is not uncommon to experience a market correction of a 10% magnitude multiple times during a single calendar year. Swift drawdowns and increases in volatility are always concerning, but these events can also create opportunities for patient, long-term investors. We must balance the uncertainty of an extended economic impact with current valuations when considering any meaningful changes to a portfolio. Keeping that in mind will allow us to continue to monitor markets for opportunities and risks, and make adjustments in line with your long-term plan.

We are grateful for your confidence and trust, and urge you to be in touch with your portfolio manager with any specific questions about your portfolio.

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