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Coronavirus Fears Wash Away New Market Highs

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Coronavirus fears hit the markets as concerns mount that the virus is now accelerating outside of China with cases growing in South Korea, Italy, Iran, and the United States. Panic set in during Monday's trading session with the major U.S. stock indices all down over 3% with more than 90% of total volume being to the downside, and the CBOE Volatility Index surging nearly 50%.

Over the past three days, since hitting a new all-time high, the S&P 500 has now fallen 4.73%. The Russell 2000 has dropped 4.52% from its recent high, while international markets have been hit the hardest with the MSCI ACWI down 5.52% off its peak.

Economic activity is also being affected with manufacturing related sectors and supply chains under stress. These fears roiled the markets, resulting in a sharp decline in global risk assets and a flight to safety into defensive asset classes. The 10-year U.S. Treasury Note is closing in on all-time low yields while the 30-Year bond has already set record low yields. Up until this latest wave of selling, credit remained very resilient, with high yield bonds resting just off record highs.

It's not just coronavirus news that is unsettling the markets. As we get deeper into primary season, political rhetoric is revving up and it seems like it will be a long battle on the Democratic side with many political pundits suggesting the possibility of a brokered convention. A brokered convention happens when a political party fails to choose a nominee on the first round of delegate voting at the party's convention.

The last time this happened was in 1952, when the Democrats and Republicans both failed to choose a nominee in the first round of delegate voting. This is adding to the uncertainty of this primary season.

The next several trading sessions will be important to see if the markets can stabilize and find footing. There may be some further downside in the short-term, which is normal given the election year trends that we laid out in our 2020 Market Outlook.

As always, it is imperative to focus on the fundamentals, which we believe remain positive at this point. The coronavirus will have a short-term effect on the economy and corporate earnings, but we do not expect it to have a lasting impact. Financial success is achieved by focusing on long-term goals, and not letting short-term swings in the market derail investors' objectives.

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The S&P 500 is a stock market index that measures the performance of 500 large companies listed on stock exchanges in the United States.

The Russell 2000 Index is a small-cap stock market index of the smallest 2000 stocks in Russell 3000.

The MSCI World Index captures large and mid cap representation across 23 Developed Markets (DM) countries*. With 1,646 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The CBOE Volatility Index, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options.

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