TFC FINANCIAL
The Financial Counselors

MARKET UPDATE
February 25, 2020

OUR VIEW

We think it is important to maintain perspective, despite the understandable impulse to abandon equities and other "risky" investments.

Unlike the case with natural disasters such as storms and earthquakes, the Coronavirus hasn't permanently destroyed productive capacity in the global economy.

Coronavirus Update

Monday's selloff in stocks wiped out stock market gains for the year. U.S. stock benchmark indexes dropped by more than 3%, with the S&P 500 Index falling the most since February 2018. Investors were jolted out of complacency by the spread of the Coronavirus to additional countries -- the epidemic has now spread to more than 30 countries. Disappointing purchasing manager index (PMI) numbers released last Friday that reflect the early impact on economic growth didn't help market sentiment. At this point, it is impossible for us to project the peak magnitude of the epidemic and the full economic implications.

We try to separate our personal emotions from our assessment of the investment implications of epidemics and natural disasters. That isn't always easy to do, but we think our clients are best served by objective, dispassionate advice. Our expectation is that the Coronavirus will hurt global growth for a longer period than the market was expecting, with the first half of the year likely to fall meaningfully short of expectations. If the virus is contained, however, growth could rebound dramatically in the second half of the year. The market continues to expect a "V-shaped" recovery in the second half of the year.

The spread of the virus appears to have slowed in China, but we are worried about the possibility that the outbreak will re-intensify as workers return to their jobs. An estimated 50% of Chinese factories have re-opened, though the percentage is higher for larger companies; 90% of factories are projected to re-open by mid-March. Travel restrictions are being removed at a fairly slow pace – passenger flows are down about 80% year over year according to TS Lombard, one of our global economic research providers; adding to the slowdown is that some cities are requiring self-quarantine of 7-14 days. Containment of the epidemic in China, factory openings and improvements in capacity utilization would reverse some of the negative economic impact we've seen to date. Analysts are monitoring real-time indicators such as steel, oil and copper prices to assess Chinese economic activity, while paying close attention to passenger flows and other metrics.

The spread of the virus to Italy and many other countries was a major catalyst in Monday's market selloff, creating fears that the duration and scope of the economic impact will be greater than was the case for SARS (Severe Acute Respiratory Syndrome) in 2003. Comparisons between Coronavirus and other outbreaks may be helpful but are far from conclusive. Coronavirus is more contagious than SARS and carriers that don't know they're sick can spread the disease to others. SARS could only be spread to others after symptoms appeared, making it less likely to be unknowingly transmitted. The Coronavirus does have a significantly lower fatality rate (2%) than SARS (10%). Approximately one in five infected people become severely ill, with most confirmed cases exhibiting only mild symptoms. Unfortunately, Coronavirus is much more fatal than the average seasonal flu. The swine flu pandemic in 2009-10 infected a staggering number of Americans – an estimated 61 million people – but the mortality rate from swine flu was relatively low.

We think it is important to maintain perspective, despite the understandable impulse to abandon equities and other "risky" investments. Unlike the case with natural disasters, such as storms and

TFC FINANCIAL
The Financial Counselors

Our long-term forecast hasn't changed: for the most part, loss of manufacturing output will be recovered in following quarters; loss of services is permanent, but this shouldn't change the future growth trajectory.

earthquakes, the Coronavirus hasn't permanently destroyed productive capacity in the global economy. Economic activity should resume once the outbreak is contained. Consequently, it is important to distinguish between "permanent" hits to growth and temporary deferral of growth. Reduced spending on luxury goods and travel may have a greater impact on 2020 earnings given the timing of the outbreak (during the Chinese Lunar New Year); other spending may just be pushed back to later in the year.

Investor optimism was high at the start of the year for a variety of reasons that remain true today. The truce is still in place in the trade war between the U.S. and China. Given the shock to economic growth, central banks stand ready to ease monetary policy – a step the People's Bank of China has already taken. We think the Fed is likely to stay on hold rather than cut rates in the first half of 2020, but they will change their strategy if the crisis worsens. We expect to see more Chinese fiscal and monetary stimulus in 2020, with President Xi Jinping's efforts to promote "sustainability" of growth put on hold for now. American unemployment remains near half century lows, with household incomes supporting consumption.

TS Lombard shared their point of view with us: "In the long term, this is fundamentally a temporary shock…Chinese growth will likely follow a V-shaped recovery in the next three quarters. Renewed contagion means a global recovery is likely delayed by one to two months as authorities outside of China work to take control… Our long-term forecast hasn't changed: for the most part, loss of manufacturing output will be recovered in following quarters; loss of services is permanent, but this shouldn't change the future growth trajectory."

We will continue to monitor developments in the outbreak and implications for economic growth, evaluating whether a change in our investment stance is prudent. In the meantime, please do not hesitate to contact me or your TFC advisor with questions.

Sincerely,

Daniel S. Kern, CFA, CFP®
Chief Investment Officer

Renée Kwok, CFP®
President & CEO

TFC Financial Management, Inc.
260 Franklin Street, Suite 1888, Boston, MA 02110
p 617.210.6700 | f 617.210.6750 | www.tfcfinancial.com

Disclaimers:

1. Investments in securities are not insured, protected or guaranteed and may result in loss of income and/or principal.
2. This communication may include opinions and forward-looking statements. All statements other than statements of historical fact are opinions and/or forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the beliefs and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such beliefs and expectations will prove to be correct.