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Coronavirus Market Commentary, *February 28, 2020*

After a volatile week in the market, you may have some concerns due to the coronavirus fears and the impact to your investments. We wanted to reach out to provide our commentary and thoughts moving forward.

The current sell off in the market, in our view, is almost entirely due to fears concerning the coronavirus. Previous sell offs due to pandemic have been short lived and represented buying opportunities. In 2003 during the SARS epidemic, the market sold off approximately 12% but recovered very quickly after the rate of infection peaked.

We believe we are at the same point in this cycle. The recovery rate in China is starting to exceed reports of new cases and the percentage of fatalities is much lower than previous pandemics. There are several human trials of possible treatments and scientists are way ahead of where they were in relation to the SARS epidemic.

Historically, epidemics have had relatively minimal long-term effects on stocks. Will the coronavirus be different? It is hard to say. Investors may have little need to take action in the near-term if their portfolios are diversified and aligned with their long-term strategic equity-allocations. Our analysis of 13 global pandemics over the past 50 years shows that once the number of newly identified cases starts to decline, economic activity and the stock market tend to rebound quickly. In similar past episodes, market corrections were relatively brief and comparatively shallow.

Since the beginning of January, estimates for S&P 500 earnings per share have been cut, with the largest reductions being made to the first quarter estimates. These cuts have resulted in a move from expected growth of nearly 10% for calendar year 2020 to less than 8% at present. It's hard to imagine that there aren't more cuts to come, especially if the U.S. dollar continues to strengthen. For the first quarter, the largest lowering of estimates has been for the consumer discretionary, industrials and materials sectors. The U.S. Economic fundamentals are on solid footing. Interest rates and inflation are low, labor markets are healthy, consumer balance sheets are solid, and banks continue to be willing to lend. We are not seeing the typical conditions that would spark a recession. Our base case for the global economy in 2020 is still for a modest pickup in growth, with a slight rise in U.S. inflation pressures; this in turn limits recession risks. Financial vulnerabilities are climbing, but our overall gauge

of vulnerabilities across the economy stands well short of its peaks ahead of the last recession. We still view this as a favorable backdrop for risk assets over a 6-12 months horizon, even considering the impact from the coronavirus outbreak. Over the same time horizon, we still see potential for a bounce in cyclical assets.

We hope this information helps in addressing concerns regarding the U.S. and Global markets as it relates to the coronavirus. Although we are not recommending portfolio allocation changes for the long-term investor at this time, if you are uneasy with the short-term volatility please call our office at 239-920-4440 to discuss potential changes to your allocation.

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