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## MARKET UPDATE

February 27th, 2020

Dear Clients and Friends,

**The Coronavirus outbreak continues to hit the headlines, and fears have grown during the week with a concerning surge in cases across Italy and South Korea and new cases in the US.** Let us first point out this

is a very fluid situation and we are monitoring impact through various research partners by the hour. For investors, the outbreak has sparked some disturbing imagery across news outlets and social media around

grocery stores in Milan with nearly bare shelves, and local fears rise. Further, in the week prior, Apple issued a revenue warning related to the outbreak and concerns over supply chains and labor shortages, and Bloomberg is estimating that the Chinese economy is operating at roughly half of its regular capacity.



As travel warnings and restrictions are put into place, and more areas of quarantine are declared, there can be a genuine impact on supply chains and output in our world of intricate and expansive supply chains. We have seen glimmers of this, and these events may put a damper in Q1 growth as well as introduce a bought of uncertainty and volatility into markets. We have already seen some increased volatility expectations as well as declining interest rates in an initial flight to safety.

### What do we think about its potential impacts?

#### ***Fed Futures***

Looking at fed funds futures, odds of further Fed action have grown substantially recently with the chance of at least one rate cut by the April meeting hitting over 50%. As recently as a few weeks ago, these odds were under 20% and in the single digits before that.

#### ***Interest Rates***

The knee-jerk flight to safety has depressed interest rates further, and they currently stand at some of the lowest levels ever seen on long-dated Treasuries. As the yield curve continues to flatten, we could very well see it invert once again and spark increased chatter of recession.

#### ***Presidential Election***

In other news impacting capital markets, Sen. Bernie Sanders has taken the lead in the democratic primary and, based on today's poll numbers, appears the clear front runner to win the nomination. While a lot can still change, and regardless of one's political leanings, if his lead holds through Super Tuesday and beyond, we should expect some additional volatility around fears of increased taxation and regulation.

### Looking Ahead

In short, we don't know what lies ahead. We know governments are rallying resources to address this issue as well as coordinate responses as best they can. There have been some small-scale travel warnings and restrictions put in place, but these may very well be temporary. The situation may get worse before it gets better, but the data set, as it stands today, does not support the idea of widespread disruptions or long-term impacts of the outbreak.

### Bottom Line

We will continue to monitor the situation closely and assess the underlying data. We believe staying unemotional during these times is the best course of action, and avoiding knee-jerk reactions and continuing to focus on the data are the best tools we have available in situations like these.

If you have any questions, please do not hesitate to reach out to our office.

Sincerely,

Your Wealth Management Team

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