

Corona Virus Update

To view the current Covid-19 scare within the proper framework, let's examine the background of U.S. efforts to get ahead of the Corona virus well before it became a global issue. In 2018, President Trump established a National Biodefense Strategy to improve the response time for any biological threat to the U.S. On January 30, 2020, Trump created a CV19 task force to coordinate all response efforts of state, local and Federal officials. Trump simultaneously signed a presidential proclamation temporarily suspending the entry into the United States of foreign nationals (specifically focused on recent travel to China) and HHS Secretary Alex Azar declared a nationwide public health emergency. This allowed the passing of policies to increase detection and containment of citizens and visitors potentially infected with the corona virus proactively, before it even appeared here. This includes mandatory or voluntary 14 day quarantines, or refusal of entry to the U.S. by non-citizens who had visited China.

As a result, the President and Secretary Azar announced in last week's press conference that in the U.S. the "risk continues to be low" and that "aggressive containment is working". In addition, we have repatriated 40 U.S. citizens who were being held in quarantine abroad, and they are being actively monitored. Trump announced that VP Pence will be responsible for the overall task force, putting the full weight and resources of the White House behind the national, state and local efforts. Congress is preparing to provide over 4 times the funding requested by the White House, which should be approved shortly.

As of this writing there have been two CV19 deaths reported in the US. For perspective, during the current flu season more than 19 million people across the U.S. have been infected, with 180,000 hospitalizations and over 10,000 deaths. In the last 10 years, annual deaths have ranged from 25,000 to 69,000, totaling over 360,000 over the period.

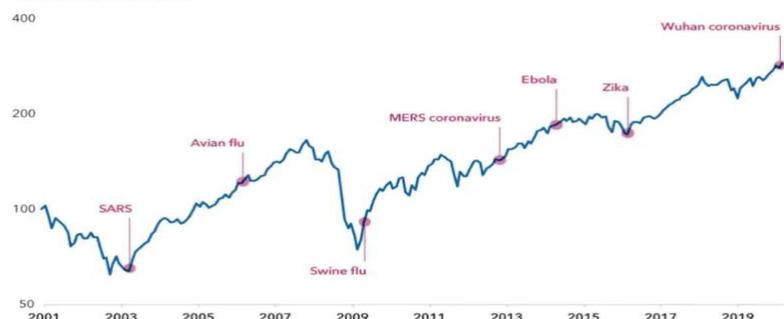
China has begun aggressively using quarantines to slow the impact, with virtual shutdowns of several major cities. Japan has cancelled school for 18 million students for a month, numerous countries are now closing their borders to travelers who have recently visited China. Iran is much further behind the curve, and there is a reasonable concern that Muslim nations who participate in the Hajj, the 10-day annual pilgrimage to Mecca and Medina by over 2 million pilgrims could be a disaster in waiting. That said, Saudi Arabia has temporarily suspended visas for the 'umrah pilgrimage' for July, and currently has no confirmed cases of its own. In some areas the rate of increase has begun to peak, and even China is leveling off around 80,000 active cases (reported). Countries with more open borders and less sophisticated medical systems could take longer to get it under control, and be more deeply impacted, as we saw in the SARS, Avian Flu and Ebola outbreaks in the past.

We expect industrialized nations to effectively control CV19 within the next several months, and the overall economic impact to be short lived. We expect the current correction to run its course over the next month or so, unless there is a significant increase in the exposure, transmission, and infection rates outside of China and the Mid-East.

As with the six prior iterations of "the world's going to end" virus scares, we expect this one will be no different. We don't dispute that the media's hyper-focus on the outbreak may have been the catalyst for the recent sell-off, but we cautioned in our year-end 2019 newsletter a market correction was overdue:

"We feel markets have fairly discounted much of the good news and the improving outlook for 2020, so we would not be surprised to see another mild set-back and consolidation as the new year unfolds, similar to those that occurred in May and July of 2019."

Global equity markets have powered through past viral outbreaks
MSCI ACWI index levels



Sources: Centers for Disease Control and Prevention, RIMES, MSCI. As of 2/21/20. Chart shown on a logarithmic scale. Total return index levels in USD, indexed to 100 on 12/31/2000. Disease labels are estimates of when the outbreak was first reported.

Graphic Source: The Capital Group

We believe a "wait and see approach" is the best path forward at present. If prices continue to decline to levels that are attractive, we will become more aggressive. Likewise, if we see particular asset classes or regional securities being overly penalized we may opportunistically avail ourselves of the discounted prices. We will continue to monitor the situation as it develops, and will reach out to clients with relevant updates, and to discuss any concerns they may have.

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