# Market Continues to Slide on Coronavirus Fears: What Should Investors Do?

*Presented by Timothy Shean, CFP®, Chief Investment Officer*

As of this writing (February 28, 2020), the Dow and S&P 500 are down more than 15 percent from recent highs. Given that we've had one of the worst weeks in history for the stock market, many fear that we're on the road to another financial crisis. But what can investors do to protect themselves? To answer this question, we first need to assess what is really happening—and what isn't.

**Focus on the Fundamentals**

Let's start with the fundamentals. What's driving this pullback is fear—specifically, fear of the coronavirus. The most visceral fear is that this virus will be another Spanish flu, killing millions around the globe. Even for those who don't expect the damage to be quite that bad, there is worry that the spread of the virus will disrupt economies, slowing growth for several quarters at least or possibly indefinitely and, consequently, taking stock markets down. These fears are what have caused markets to plummet in the past week.

**Putting the Fear in Context**

To understand where we are going, then, we must put that fear into context. If the worst fears are true, we should see virus cases exploding around the world. In fact, we aren't. In China, where the epidemic is most advanced, new cases have leveled off—the containment measures seem to be working. Elsewhere in the world, new cases are still rising. Even there, however, the rate of increase is nowhere near what was initially seen in China and seems to be leveling off. Further, the number of recoveries is rising. This means that even though there has been an increase in total cases, the number of sick patients is declining. In other words, the worst fears—of an exploding number of infections around the world leading to millions of deaths—simply are not coming true.

**Economic Damage Is Real**

The same cannot be said for the economic disruption. The Chinese policy of mass lockdowns and quarantines has hit economic activity quite sharply, and the recovery from that hit has been slower than expected. South Korea has seen the same consequences. As these two countries are major exporters and critical components of many supply chains, that slowdown alone will be disruptive. Even as these countries get the epidemic under control and get back to work, the economic effects will linger for months. This damage is already assured.

We can also potentially expect to see the same economic damage in other countries. Several have shut down their school systems or cancelled public events. Airlines here in the U.S. have waived fees for trips postponed or cancelled due to the virus. In other words, the effects of the virus will cause a similar slowdown in spending and growth around the world, and this slowdown is already happening. The economic damage is real and growing, even as the health risk seems to be moderating.

This is where we are now. The first phase of the epidemic, in China, has peaked and is now declining. Signs are that the second wave, in countries around the world, will follow a similar course. There is currently economic damage, and there will be more. But absent an acceleration in the infection rates, the damage looks likely to be contained to this quarter and perhaps next.

**What Are the Markets Telling Us?**
Given all of these factors, a market reaction was both reasonable and expected. What has been a surprise, though, is the speed and magnitude of that reaction. What are markets telling us? On the surface, it seems they are saying that things are considerably worse than what the infection rates and damage so far indicate. Are the markets right?

Based on history, probably not. The current decline, of about 15 percent, is in line with what happened in 2015–2016 with the Zika virus, when we saw a 12.9 percent decline. The SARS virus, in 2003, took the S&P 500 down 12.8 percent. In both cases, the market reacted with fear to what might happen and did so quickly, just as we are seeing now. In both cases, however, the actual result was not nearly as bad as feared, and markets rebounded. Right now, we are seeing peak fear—in the media and in the financial markets. While some economic damage is certain, it should be nowhere near what is now being reflected in market prices, just as we saw with Zika and SARS. It is not just epidemics that can take markets down, of course. If you look at other sharp market drops, we see a similar pattern of a quick decline and subsequent recovery.

This past week has been a difficult one, and conditions might well get worse. There is no timetable for the end of the epidemic. It might last a while. We will, however, ultimately see an end, and the data suggests it might not be far off. At that point, we will also see a subsequent normalization of the markets, just as we did with Zika and SARS. Any action we consider should take that information into account.

**Important Reminders for Investors**
As investors, we also need to consider two final points. First, even though stock markets are down, bond markets are up. For a diversified portfolio, the drop is material but not nearly as bad as the indices themselves. Events like this are the reason we diversified in the first place.

Second, unless you need the money immediately, a drop (even a big one like we are seeing) and then recovery are just part of the normal ebb and flow of markets. We have seen this pattern many times before, most recently at the end of 2018. Of course, market declines are always a surprise and always scary. Over time, however, the fundamentals reassert themselves, and growth resumes.

As we look at the data, we need to think back to the sharp market drop in 2018 and the subsequent recovery. We need to remember the Zika virus pullback and the subsequent recovery. We need to remember that market pullbacks are normal, even ones that are big and fast. And we need to remember that we made it through all of those and many more. We will make it through this.

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