Eaton-Cambridge Investor Market Update Letter— February 2020

Recent outbreaks of the coronavirus (a.k.a., COVID-19) outside of China has raised concerns about the virus' containment. This heightened concern sent global stocks quickly lower over the past few trading days as investors assess the potential impact of the virus on the global economy. While we don't know how many people the virus will infect, the length of this viral cycle and what influence it will ultimately have on the economy, we do know that you may have some questions about how this might impact your investments and whether you should be panicking. We advise that you do not panic. Significant drops in stock prices occur from time to time, and we've witnessed many such times in our 20+ years working with investors. It's easy to see why investors might get spooked during times as these, so we understand that you might have concerns. That's why we want to assure you and explain why we are not fearful about COVID-19.

First, don't give in to the urge to take action. The news stories about the virus can be scary, but we need to remember that market prices react immediately to both good and bad information. To potentially make money or avoid potential losses, we would need to trade before it is news. And, of course, we don't know the future, so any action would be a guess, and any positive result would be luck.

Second, we need to keep perspective. There have been about 14 confirmed cases in the U.S. and 2,600 deaths globally, mainly in China, according to the latest figures from the Centers for Disease Control and Prevention. One statistic that we haven't heard much about in the press is on the number of people that have recovered from the virus. According to information tracked by John Hopkins University, over 30,300 people have fully recovered from the virus. While it does have a slightly higher mortality rate than some of the more recent viruses, catching it doesn't mean you will perish. The odds are that our immune system will fight it off. Meanwhile, the flu this season has infected 29 million people worldwide, and killed 16,000, according to the CDC. Why are some people panicking over COVID-19, when they aren't at all concerned about the flu?

The reason is obvious: COVID-19 is new; flu isn't. And "new" means unfamiliar, and that can be scary. We want you to know that, although COVID-19 is new, we see no reason to alter or deviate from your investment strategy or broader financial plan. After all, either COVID-19 will pass – meaning the short-term impact on the financial markets will soon be over – or, well, the virus will wipe out the human race. If the former occurs and a cure or vaccine is found, COVID-19 will be like polio: a thing of the past. And if the latter occurs, and we're all gone, no one will care what happens to their investments!

In other words, those who are panicking aren't thinking about this logically. And that's the point, really: Nobody decides logically that it's time to panic. Panic is an emotional response, not an intellectual one. So, let's look at the facts to help you determine the best course of action. Consider that:

• The White House National Economic Council and the White House Council of Economic Advisers both report that they expect limited economic impact from COVID-19 – a reduction this year in our gross domestic product (the total value of all goods and services our nation produces) of 0.2 percentage points. Last year's GDP rose 2.3 percent, according to countryeconomy.com, so a 0.2 cut would mean our economy would expand by 2.1 percent instead of 2.3 percent.

• The Congressional Budget Office says 100,000 deaths from the virus would cut GDP growth by 1 percent (not enough to cause a recession) and that a true pandemic of far greater proportion would be similar to an average recession. We've had many recessions in our nation's history, and none have destroyed the U.S. economy. It's reasonable to expect that the next one won't either.

• Even in China, the virus's economic impact has been minimal. Oxford Economics notes that China's GDP last year grew 6.1 percent, and says it expects COVID-19 to reduce China's growth to 5.4 percent in 2020. Thus, China's economy is expected to grow more than twice as much as the U.S. economy.

This isn't the first new virus we've seen, and this won't be the last. SARS, Zika, H1N1 and others have all come and gone. While the concerns at the time were the same (e.g., How quickly will it spread? Will there be a cure? Will it slow down the global economy? Will it impact my investments?), our society has figured out how to overcome past viruses, and markets have done the same.

In fact, markets have short memories regarding epidemics. Markets may initially react to the uncertainty and fear that comes with any new concern, but, for the most part, viruses get contained and investors return to corporate and economic fundamentals. We can see this pattern in the adjacent table. Market returns generally have been up in the six- and 12-month periods following the outbreak of a virus or disease. While this is a small sample set, we know that keeping focused on the long-term helps us keep a level head during all kinds of storms.

U.S. Market Return Following Select Epidemics

	Month	% Change of S&P 500	
Epidemic	End	6-Month	12-Month
HIV/AIDS	Jun-81	-0.3%	-16.5%
Pneumonic plague	Sep-94	8.0%	26.3%
SARS	Apr-03	14.6%	20.8%
Avian flu	Jun-06	11.7%	18.4%
Denge fever	Sep-06	6.4%	14.3%
Swine flu	Apr-09	18.7%	36.0%
Cholera	Nov-10	14.0%	5.6%
MERS	May-13	10.7%	18.0%
Ebola	Mar-14	5.3%	10.4%
Measles/Rubeola	Dec-14	0.2%	-0.7%
Zika	Jan-16	12.0%	17.5%
Measles/Rubeola	Jun-19	9.8%	N/A

Source: Dow Jones Market Data

Our advice remains the same, to stick to your long-term plan and tune out the noise. We invest client money in a way that isn't dependent on lucky guesses or get-rich-quick schemes. We use investment strategies and prepare financial plans that assume events like these will come and go. So, please, stay positive and focus on your family and your health. If you want to think about the virus, send positive thoughts toward those infected by the virus.

Let me offer one additional helpful point for you: Keep in mind that your portfolio is highly diversified; you don’t have all of your assets in stocks. This helps insulate you from declines in the stock market. And, we’re monitoring your portfolio daily, and will deploy our rebalancing strategy for you as opportunities arise. This important service takes advantage of the price declines in the market and helps reduce your portfolio’s volatility.

If you have any questions about your investments, need to inform us of family or work-related changes, or want to discuss your financial planning needs, please reach out. We are here to help you reach your financial life goals!

Sincerely,

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