NATIONAL WEALTH ADVISORS Inc.
Business & Personal Financial Planning

Michael A. Caputo, MSFS, AEP®
President

<u>Coronavirus Market Update</u>

SUMMIT FINANCIAL, LLC.

03022020-169

1025 Westchester Avenue • Suite 318 • White Plains • NY 10604 • Phone 914.729.1105 • Fax 914.761.3840 • mcaputo@nwadvisorsinc.com

National Wealth Advisors, Inc. is a DBA of Summit Financial, LLC. Investment advisory and financial planning services offered through Summit Financial, LLC, an SEC Registered Investment Advisor. Insurance services offered through Summit Risk Management, LLC, an affiliate of Summit Financial, LLC. Securities brokerage offered through Purshe Kaplan Sterling Investments , Member FINRA/SIPC Headquartered at 18 Corporate Woods Blvd., Albany, NY 12211 ("PKS"). PKS and Summit Financial, LLC, are not affiliated companies.

SUMMIT FINANCIAL

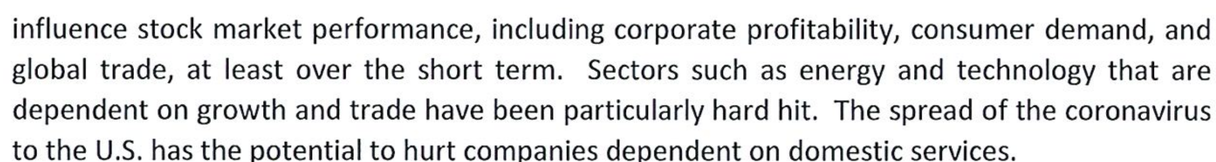
Market Update – February 28th, 2020

The global spread of the coronavirus and the response by governments and the medical community have dominated headlines over the last two weeks. Fear and uncertainty have triggered a stock market correction with the U.S. market declining more than 10%. Most risk-oriented assets have declined in unison, including stocks outside the U.S. and credit-sensitive bonds. The U.S. stock market has fallen further than other developed and emerging markets. Ironically, the Chinese stock market is down less than 5%. The market response to the coronavirus has been a classic "flight-to-quality" shift as investors react to a sudden barrage of bad news. Having bonds in a diversified portfolio has once again proven to be a tremendous stabilizing factor. Defensive assets, including high quality bonds in the U.S. and abroad, have risen during this time. As a result, a balanced portfolio of stocks and bonds has declined modestly.

Risk-assets such as stocks have had a very strong run up in value over the past year and volatility has been low. The recent stock market correction in terms of magnitude is in line with prior corrections that have served to reset market valuations. Most major asset class returns remain in positive territory over the past year.

Source: Bloomberg

The global economy and stock markets appeared to be on solid footing prior to the coronavirus outbreak. Economic data was improving, sentiment was on the upswing and corporate earnings seemed poised to rebound. Recent events will likely negatively impact many factors that



influence stock market performance, including corporate profitability, consumer demand, and global trade, at least over the short term. Sectors such as energy and technology that are dependent on growth and trade have been particularly hard hit. The spread of the coronavirus to the U.S. has the potential to hurt companies dependent on domestic services.

As is often the case, this market correction has been very abrupt, wiping out significant investment gains in a few days. News items such as the coronavirus seem to come out of left field after a period of investor complacency. Although we are now experiencing the most significant downdraft since the financial crisis, we don't foresee the same long-term impact on the economy and markets. It is likely that global GDP and 2020 earnings will fall below expectations set before the coronavirus outbreak. Already, global supply chains, travel, and energy consumption have been impacted and many sectors will see declining demand. How severe the disease will be and how much it will spread is unknown, making it difficult to assess the economic and corporate earnings impact and by how much equity values should be adjusted to reflect earnings declines. Stocks are priced based on long term earnings expectations and once the magnitude and duration of the economic impact is better understood stock markets may have overshot on the downside.

Interest rates have reacted to investor anxiety and have fallen globally since the coronavirus outbreak. The challenge we have faced since the financial crisis is that as interest rates approach zero, investors have shied away from fixed income. This has stretched equity valuations and may have caused stock market corrections to be more abrupt due to the larger allocations to risk assets. The extremely low level of interest rates also limits central bank policy tools, providing less ammunition to respond to a prolonged economic slowdown. We continue to closely monitor investment portfolios in light of these challenges with a long-term view.

The most important advice is to maintain a diversified portfolio, understanding that market corrections will happen without warning and are painful. We urge investors not to make significant changes to portfolios based on emotions as timing decisions almost always hurt long term returns. As bad as the last two major market corrections were, investors that stayed the course fared well and those that made significant changes often regretted their decision and agonized over when to recommit to risk assets.

This commentary was written by the Investment Team at Summit Financial, LLC., an SEC Registered Investment Adviser ("Summit"), headquartered at 4 Campus Drive, Parsippany, NJ 07054, Tel. 973-285-3600. It is provided for your information and guidance and is not intended as specific advice and does not constitute an offer to sell securities. Summit is an investment adviser and offers asset management and financial planning services. Indices are unmanaged and cannot be invested into directly. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss.