

The Coronavirus: Financial Markets Take a Hit

The continuing spread of the coronavirus is beginning to take a toll on the global economy and roiling stock markets. What can investors do?

The S&P 500 fell over 10% in one week on concerns about the economic fallout from the widening epidemic.

The heady stock market rally that produced 30%+ gains in 2019 and continued into 2020 came to an abrupt end on February 24, when the Dow Jones Industrial Average lost over 1,000 points and the S&P 500 dropped over 3% in one day. Further declines followed, and by the end of the month, the market had tumbled over 10%. The routing is widely attributed to fears of the new coronavirus epidemic and its growing toll on trade, travel, and the global economy.

Of particular concern was the lengthening list of outbreaks outside China -- including the U.S. -- sparking fears that the virus will become a global pandemic. Further stoking domestic fears was a warning by the CDC on February 25 that the coronavirus will almost certainly spread in the United States.

The virus has already had effects on some industries, including travel, retail, manufacturing, automotive, technology, health, and energy. Apple warned that it won't meet its revenue targets because the outbreak has disrupted production and curbed demand for iPhones. And Walmart, the country's biggest retailer, said that the virus will likely impact its business. As these and other companies cut their profit or revenue outlooks, stocks may take further hits.

How bad could it get?

It remains uncertain how widely the virus will spread and how much damage it will do. As of March 1, global proven infections topped 100,000, most of them in China. As of that date, cases had been confirmed in nearly 60 countries, with 76 cases in the U.S.¹ Epidemiologists' predictions of global infections vary widely, depending on how successful countries are in containing the spread through treatment, quarantines, etc. In general, poorer countries are not as well equipped as rich countries to deal with it, and containment rates are expected to be lower there.

If history is any guide, the economic effects of the epidemic may be relatively brief. Global contagions going back to the SARS virus in 2003 saw a sharp slowdown lasting about a quarter, followed by a sharp recovery over the next quarter.² Thus far, the economic effects of the current outbreak have been mostly confined to China, where mass quarantines have had a visible impact on road, railway, and airport traffic as well as overall commerce. Beyond China, the economic impact will

vary from nation to nation, depending on how much stimulus a country can afford and how heavily it depends on foreign trade. Here in the U.S., the economic fallout will largely depend on how quickly and widely the virus spreads within our borders. Any negative effects will likely be met with stimulus by the Federal Reserve.

What Investors Can Do

Dealing with crises such as the coronavirus epidemic requires patience and a level head. Here are some suggestions to help you weather the storm:

- **Don't panic.** Selling into a plunging market is often a sure way to lock in a loss. Talk with a financial advisor before you act. He or she can help you separate emotionally driven decisions from those based on your goals, time horizon, and risk tolerance. Researchers in the field of behavioral finance have found that emotions often lead investors to read too much into recent events even though those events may not reflect long-term realities. With the aid of a financial professional you can sort through these distinctions, and you'll likely find that if your investment strategy made sense before the crisis, it will still make sense afterward.
- **Organize and review your financial records.** Crisis events highlight the importance of knowing where your assets are and maintaining organized financial records.
- **Practice buy-and-hold investing.** The only certainty about the stock market is this: Crises happen and the market will always experience ups and downs. That's why it's important to keep emotions in check and stay focused on your financial goals. A buy-and-hold strategy -- making an investment and then holding on to it despite short-term market moves -- can help. The opposite of buy-and-hold investing is market timing -- buying and selling investments based on what you think the market will do next. Market timing, as most investment professionals will tell you, is risky. If your predictions are wrong, you could invest when the market is on its way down or sell when it's on its way up. In other words, you risk locking in a loss or missing the market's best days.

As experienced market watchers will tell you, time may just be an investor's greatest ally. Use it to your advantage by sticking to your plan and focusing on the future.

¹Source: The Washington Post, [Mapping the Spread of the New Coronavirus](#), March 1, 2020.

²Source: New York Times, [Wall Street Gets Worried About the Coronavirus](#), February 25, 2020.