

## Hughes Investment Advisory Service LLC

Friday February 28, 2020

### Market Update on Coronavirus concerns and related market volatility

About a week ago, Feb 19<sup>th</sup>, all the market averages were hitting all time highs. As of today, the S&P 500 has dropped more than 10% marking an official “correction”. First a few points regarding this correction: The drop has been sharp and swift, including the worst weekly point drop on record, however, for perspective this pullback is 12<sup>th</sup> skid of at least 7.5% since 2009.

How is this “correction” different from past events, the most recent being Q4 2019 and the 2008/2009 crisis? It is not a financial event that is the cause but a difficult to quantify, medical outbreak. I believe the fears driving the markets this week are due to the “unknown” of what will happen next. Wall Street hates uncertainty and the fact is that there is currently no way to know how bad this Covid-19 will get, thus the uncertainty driving prices lower. The worst-case scenario is that the virus outbreak will worsen to the point where it tips world economies into recession. This is a possibility but at least right now, in my opinion, not a probability. At times like this I look back on historically similar events to guide me with current conditions. Below is as direct a comparison as **can** be made, and the facts are encouraging:

Epidemic	Month end	6-month % change of S&P	12-month % change of S&P
<b>HIV/AIDS</b>	<b>June 1981</b>	<b>-0.3</b>	<b>-16.5</b>
Pneumonic plague	September 1994	8.2	26.3
SARS	April 2003	14.59	20.76
Avian flu	June 2006	11.66	18.36
Dengue Fever	September 2006	6.36	14.29
Swine flu	April 2009	18.72	35.96
Cholera	November 2010	13.95	5.63
MERS	May 2013	10.74	17.96
Ebola	March 2014	5.34	10.44
Measles/Rubeola	December 2014	0.20	-0.73
Zika	January 2016	12.03	17.45
Measles/Rubeola	June 2019	9.82%	N/A

#### Conclusions:

Based on past experience I believe that that Covid-19 will eventually run its course and/or therapeutics will be developed and the medical community will come to accept that coronaviruses are not that unusual. As the World Health Organization (WHO) states, “Coronaviruses are a large family of viruses which may cause illness in animals and humans. In

humans, several coronaviruses are known to cause respiratory infections ranging from the common cold to more severe diseases such as MER and SARS. The most recently discovered coronavirus causes Covid -19.”

This does not mean that stocks won't continue to struggle in the near-term nor that alarming headlines won't continue to lead the evening news, but just as in the past, we have managed to persevere through HIV, SARS, Avian Flu, Swine Flu, Ebola and a host of other ailments not to mention all of the financial/international crises along the way.

Over the last 6 weeks I had already been slowly trimming some of our biggest gaining stocks and we don't own the sectors most affected by this crisis: airlines, gaming, retail, travel/leisure. We currently don't own any international markets and the US economy remains a standout by most measurements. I also believe that the US healthcare system is best prepared for the task at hand – as evidenced by our strong exposure to the medical/pharma sectors of our portfolios.

The market was stretched going into 2020 after a spectacular year in 2019 and my 1/1/2020 outlook was only looking for a 6% gain for the S&P 500 for this year. I'll keep this prediction in place for now as the current crisis unfolds.

I believe that the selling occurring this week and today is mostly leveraged players, Quants and other algorithmic based trading systems and not the long-term investor. I remain on watch listening and reading the latest news, market activity and economic indicators. I will be upgrading and adjusting portfolios accordingly. Please do not hesitate to give me a call to discuss the above analysis and try not to watch the hourly moves in today's markets which can often be quite gut wrenching. Have a good weekend.

Sincerely,  
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