

## COVID-19 (Coronavirus) Update

On Monday, February 24, world markets took a large one day hit due to fears that COVID-19 would become a pandemic. The S&P 500 dropped 3.35%, erasing gains for the year. We are at a moment in time in history where the “news cycle” is measured in seconds and the ability to understand what is verified, researched, and true is becoming more difficult to discern. Evidently similar disruption occurred with the advent of the telephone, among other technologies, leading to some disastrous misunderstandings (e.g., [Spanish-American War](#)). With this in mind, we attempt to answer two items in this e-mail:

- Thoughts on risk of the virus as well as trusted sites to stay updated
- Thoughts on risks of further global sell-offs

### COVID-19 - A Pandemic?

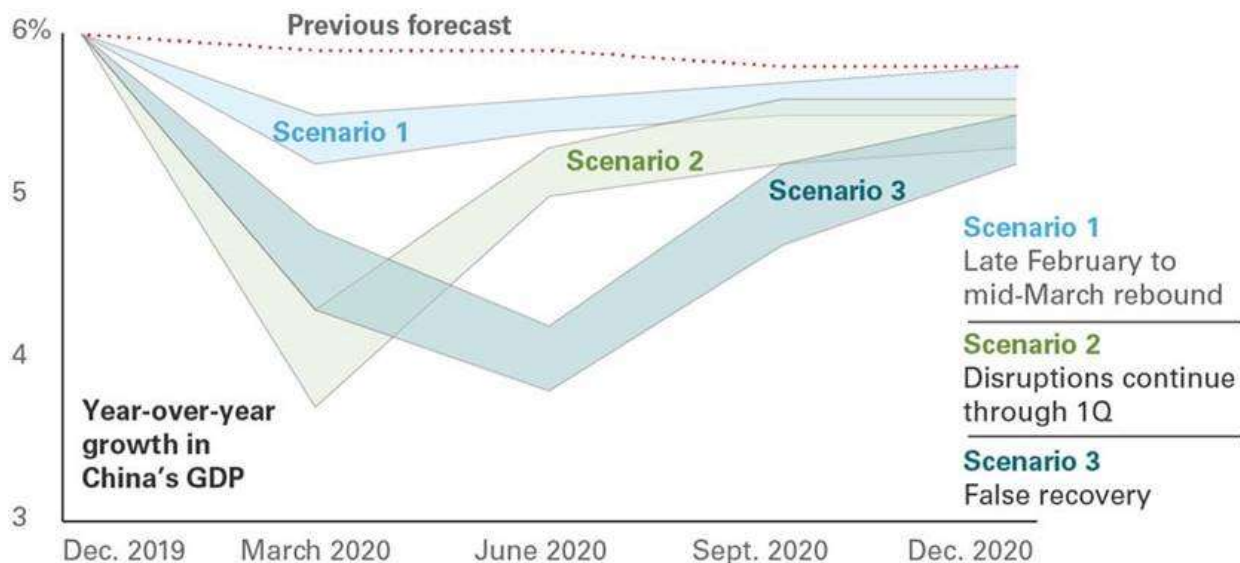
The Centers for Disease Control and Prevention (CDC) has a good [FAQ](#) detailing COVID-19 which we expect will be kept up to date. We recommend using it as a primary source in understanding the current situation, best practices in prevention, and what to do if you think you may have the virus.

At a high level, the virus seems rather contagious, though with a death rate that we anticipate will continue to drop ([currently 2.3% in China](#), though with a much lower rate within China outside of Hubei Province). Given two characteristics of the virus, one that there is a relatively long incubation period where the carrier is contagious, and two that most of those infected are asymptomatic or experience minor symptoms (81% - note above link), we speculate that the number infected is most likely grossly under-counted. The positive of this is that would mean a lower death rate. The negative of this is that the likelihood of a [pandemic](#), meaning it spreads worldwide, is much higher.

As mentioned in our January commentary, biotech is already working on vaccines and medication to combat the disease. Our expectation is that, outside the worst-case scenario where the virus actually shifts and becomes more dangerous, the death rate will continue to decline as we better learn the most effective path of treatment.

## Financial impact

We have spoken to a number of institutional managers and the general consensus is that while they expect short-term disruption, the market will rebound. Their primary thesis is that economic activity will eventually come back on-line. Their upside case is that quarantines are effective but even if they are not, eventually the quarantines will go away (downside is that it is a pandemic which results in no reason for mass quarantines). Once economic activity resumes, a majority of lost business is recaptured as well as future expectations which drives the bulk of equity valuation.



Source: Vanguard Investment Strategy Group

In our view, there is a worse downside risk than discussed which is that the virus exposes cracks in the economic system where certain companies cannot weather the disruption. Some of this risk is mitigated by what seems like unlimited capability to throw money at the problem by the governments of China and the US, essentially kicking the issue further down the road (e.g., high government debt levels, artificially low interest rates) - a conversation for another time.

We continue to closely monitor impact of the virus, its effect on the markets, and to analyze potential shifts or opportunities. Please feel free to reach out to discuss further.



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