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INVESTMENT MANAGERS

ECONOMIC UPDATE MARCH 2020

LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

An abrupt and sharp stock market selloff late in the month led to much lower stock prices for the month of February due to the potential economic impact of the Coronavirus. Large Cap stocks in the S&P 500 were down -8.23% for the month. Small Cap stocks in the Russell 2000 were down a similar amount of -8.42% while international stocks in the MSCI EAFE were down even more at -9.04%. Emerging markets stocks performed better and were down just -5.27%. Bond yields declined helping the Barclays US Aggregate Bond Index climb 1.8% for the month.

For February, the largest factor impacting markets was the spread of the Coronavirus (Covid-19). In mainland China, where it began, millions of people have been quarantined with estimates that the Chinese economy is operating close to half of normal capacity. Global supply chains are being affected and companies have noticed increases in component shortages due to suspended production in this region. Coronavirus issues have now spread outside of China, and U.S. federal health authorities have warned businesses, schools, and communities to brace themselves for potential outbreaks. These reports have resulted in recent volatility across all markets.

Analysts have been revising earnings downward with the largest haircut given in the first quarter of this year. In the near-term, the sectors that are expected to be the most disrupted are consumer discretionary, industrials, and materials. S&P Global is forecasting the U.S. economy to slow to 1% annual growth in the first quarter compared to the 2.1% pace during the fourth quarter. Given these events, Strategas Research has raised the chances of recession to 30% from 20%, but strong housing data and stabilization in U.S. manufacturing provide solid economic tailwinds. Continued strength in the U.S. consumer will remain key. It is also important to note that these issues are only expected to impact markets temporarily and shouldn't cause significant volatility in the long-term.

The majority of S&P 500 companies have reported fourth quarter earnings and the results have been positive. Total earnings are up 1.1% from the same period last year on 4.6% higher revenues. The technology sector helped drive this growth with total earnings up 6.3% and total revenues up 5.8%.

In order to get in front of the potential economic and deflationary impact of Covid-19 the FED announced a 50-basis point rate cut on March 3. This will lower the Federal Funds Rate to a range of 1.00-1.25. At the end of the month, the U.S. 10-year was yielding 1.18%.

Markets are likely to remain volatile as news related to the Coronavirus continues to be reported. The decline we experienced in February was in-line with previous declines during the SARS and Zika outbreaks. It is unknown for now if the drastic steps taken so far and still in process will reduce the spread of Covid-19 and the duration of its affects. It's important that investment changes you make at times like this are in-line with your long-term goals. If you have any questions about your account, please do not hesitate to contact us.

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
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