Coronavirus… and oil… and rates

The week just past was a volatile one, with wide daily swings in the stock market, but the S&P 500 actually managed a small gain on the week. Not so today, which has seen a broad and sharp selloff in stock markets worldwide, and a continued, historic, drop in interest rates here in the US. The US market, depending on the particular index, is down about 6%-7% today.

Over the weekend, Saudi Arabia announced what is effectively a price war for crude oil. The kingdom had been attempting to coordinate a round of production cuts among OPEC members and with Russia, in a bid to firm prices during a period of weak demand. Unable to secure the necessary commitments, in particular from Russia, the Saudis reversed course and cut their selling prices for crude and committed to producing much more oil. Oil prices have plunged their most since the start of the 1991 Gulf War, down nearly 20% in a day. The impact has been immediate to energy stocks around the world. In the US, these price levels threaten the viability of the shale oil industry that has powered a resurgence of domestic energy production.

The tumult in energy markets has helped to continue the historic flight-to-safety move in US Treasuries. For the first time in history, the entire Treasury yield curve is sub-1%. Although these exceptionally low rates will transmit to the consumer economy in the form of lower borrowing costs for the consumer, they are a challenge for many financial companies, which benefit from higher rates and "steepness" in yields, where longer-term money commands a higher interest rate than short-term funds.

And then there is the novel coronavirus, or COVID-19 to be more particular. The current worldwide case count is approximately 112,000, with deaths approaching 4,000. China, the disease's epicenter, is home to 81,000 officially reported cases. Cases have been identified throughout much of Europe, with Italy being hit particularly hard. South Korea and Iran are trouble spots as well. Encouragingly, new cases in China are moderating. We are learning that the disease's spread can be mitigated through good hand hygiene. We also know that older persons are especially susceptible to complications from infection, while the young generally suffer a case with few complications.

Here in the US, the virus' situation presents a mixed bag. Official case counts remain modest, at 566, and deaths stand at 22, but there is widespread concern among public health professionals that infection rates are understated due the dearth of CDC test kits that can confirm the disease. Although more kits are at long last beginning to flow to health authorities, in the meantime the coronavirus has probably been silently progressing in pockets of the populace. A prime concern is that a surge of cases happening all at once could overwhelm the finite supply of intensive care beds and necessary equipment, such as ventilators, that will be needed to treat the severely afflicted.

The investment markets are sending us a message of economic slowing, and the span of outcomes could include a recession. Mere weeks ago, our economy was progressing well, with full employment and improving economic indicators. That setup has been dealt a blow from the uncertainties engendered by the coronavirus, and complicated more recently by the stunning move downward in oil and interest rates.

We remain active in reviewing and reshaping our investment portfolios. In our **Ascent Dividend Focus** strategy, we sold our remaining stake in a global hotel company, and also our remaining stake in an aircraft manufacturer. In doing so, our belief is that the current market most closely resembles the aftermath of 9/11; namely, that the economy is suffering from a sharp, unexpected shock affecting most directly the travel and tourism sectors of the economy, but also affecting the economy more generally as well. Consumers are trying to understand the new environment they face, and a reduction in their discretionary spending would not be unexpected. Also in Dividend Focus, we entered a new position in a major defense contractor on its pullback from recent highs. The net effect of our recent portfolio moves has been to build cash reserves.

Expect continued volatility, as markets are clearly at an unsettled moment.