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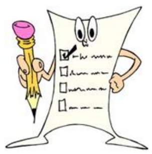
# FINANCIAL PERSPECTIVES



## Market Declines on Coronavirus, Oil-Price Fears

Data by Schwab Center for Financial Research

U.S. stocks fell sharply on Monday, March 9, 2020, with the S&P 500 index closing down 7.6%, its worst day since 2008, capping two weeks of extreme volatility amid the spreading coronavirus epidemic.

The number of COVID-19 infections and deaths has continued to rise, prompting some countries to embrace further drastic containment measures. Additionally, Saudi Arabia cut its official crude selling price and announced plans to boost output, sending oil prices down by as much as 30% on Monday.

Major U.S. equity indexes are well into correction territory (that is, down 10% or more) and are close to entering a bear market, generally defined as a drop of 20% or more. At Monday's close, the S&P 500 Index was down 18.9% from its recent peak, and the Dow Jones Industrial Average was down 19.3%.

"Contributing to today's renewed plunge is the 30% crash in oil prices, courtesy of the disintegration of the OPEC+ alliance triggering an all-out price war between Russia and Saudi Arabia," says Schwab Chief Investment Strategist Liz Ann Sonders. "From a recent high of nearly $63 last April, WTI (West Texas Intermediate) crude futures fell below $30 intraday this morning."

### Recession risk is rising

The fall in oil prices will have mixed effects, according to Schwab Chief Global Investment Strategist Jeffrey Kleintop. "Importers such as China, Japan and India will be beneficiaries, but countries such as Canada and Mexico will be hurt," Jeffrey says. "Earnings estimates for energy companies and the global averages—as well as jobs—will likely need to be cut, despite the benefit at the pump to consumers."

Altogether, recession risk is on the rise, Jeffrey says. "It's possible we are entering a global recession, but it's too early to tell the magnitude," he says.

Much will depend on the severity of new-case growth around the world, Jeffrey says. "In past pandemics, stocks didn't bottom until global new-case growth stabilized," he says. "While new cases outside China continue to rise, Chinese stocks have outperformed as domestic new-case coronavirus growth seems to have peaked."

### The federal funds rate may be headed to zero

Despite the Federal Reserve's emergency 50-basis-point short-term interest rate cut on March 3rd, the fed funds futures market is pricing in another cut at the Fed's March 17-18 meeting of 50 basis points (or a half percentage point; a basis point is one hundredth of one percent, or 0.01%), according to Kathy Jones, Chief Fixed Income Strategist for the Schwab Center for Financial Research.

"We would expect the Fed to take more steps to keep the financial markets functioning, such as increasing the level of short-term Treasury bills it holds for repo operations, encouraging foreign banks to use swap lines to make sure there are enough dollars in the system, and possibly re-starting its quantitative easing program," Kathy says. "The likelihood of U.S. growth falling to zero, or even falling into a recession, has increased, and the Fed has demonstrated that it will be aggressive to try to support the economy."

## Where do we go from here?

The spread of COVID-19 is an unusual event, making the market's direction especially difficult to estimate. "It is difficult to forecast how long it will be before the virus fades either of its own accord or due to the effectiveness of the countermeasures being employed against it," says Mark Riepe, head of the Schwab Center for Financial Research. "It is also difficult to judge the response of the economic levers after it comes under control. Will economic behavior snap back to pre-crisis levels relatively quickly, or will there be a slow, gradual recovery? Over the next few weeks, we'll be watching for clues as to which outcomes are most probable. The most likely outcome is that the pace of recovery will be uneven across countries as well as sectors of the economies."

## What should you do now?

There is no one-size-fits-all answer for how to respond to an event such as coronavirus.

**Focus on the longer term.** Based upon your individualized needs, we have ample cash equivalent investment funds available in your accounts to meet your living needs without having to liquidate any appropriate investment for funds during extended market volatility. If you've built a portfolio that matches your time horizon and risk tolerance, and you don't expect to need additional funds in excess of those you already have, it's usually best to stick to the investing plan you developed when markets were calm. At any stage of life, it is vital to understand how much volatility risk you can handle, both emotionally and financially, in any market environment.

Of course, if there are changes in your financial life, which you believe we should be aware of, please do not hesitate to contact us. If we do not hear from you, we will assume that our current understanding, summarized in your quarterly investment policy statement, is correct and your financial objectives and risk tolerances have remained unchanged.

## The Bottom Line AFTER September 11, 2001

The U.S. economy is legendary for its strength and resilience, and the national character is persistently optimistic. No more than one month had elapsed before the Dow Jones, the Nasdaq and the S&P had regained its pre-9/11 price levels.