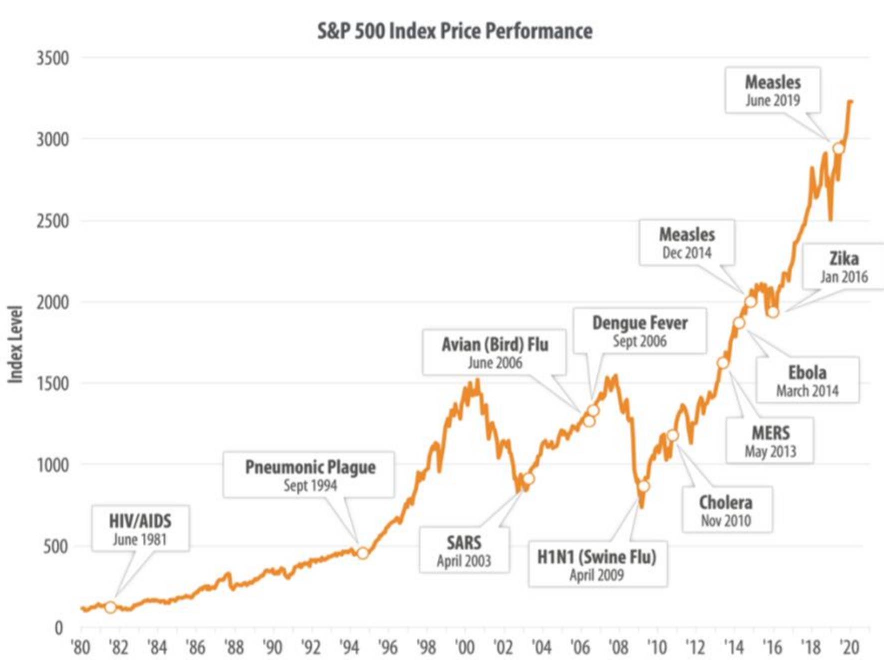
MARKET UPDATE

MARCH 2, 2020

Undoubtedly everyone is aware by now that equity markets were driven lower last week by global uncertainty surrounding Coronavirus. While the virus was first made public in January, it took until cases spread across the globe for markets to react and we officially entered correction territory (down 10% from a high) for all major indices. The downturn took just six days, the fastest decline on record for the market.

The last time we remember the market feeling so shaky was in September 2008 after Lehman Brothers collapsed. Then, like today, there was a tremendous amount of uncertainty, and many people rushed for the exits. Uncertainty continued for another six months until March 2009 when the current epic bull market began. As that seems like a lifetime ago, it is sometimes hard to remember that it is actually not uncommon to have a downturn of this magnitude. Since 2009, the S&P 500 dropped 9.9% or more in 2010, 2011, 2015 (twice), and 2018 (twice). Speed of decline notwithstanding, we do not consider this a doomsday scenario by any means.

Historically, markets have shown to be resilient in the face of global health epidemics. At the peak of the SARS epidemic in 2003, the S&P 500 declined 12.8% during a 38-day time period but then was up 20.8% in the 12 months that followed. Similarly, Zika set the S&P 500 back 13.3% in late 2015 through early 2016, but the markets bounced back the following year by 17.5%. This tells us that maintaining a long-term view is important in times like these.



Source: FirstTrust, March 2, 2020.

Epidemic	Date	S&P 500 6-Month % Change	S&P 500 12-Month % Change
HIV/AIDS	June 1981	-6.6%	-16.5%
Pneumonic Plague	Sept 1994	8.2%	26.3%
SARS	April 2003	14.6%	20.8%
Avian (Bird) Flu	June 2006	11.7%	18.4%
Dengue Fever	Sept 2006	6.4%	14.3%
H1N1 (Swine Flu)	April 2009	18.7%	36.0%
Cholera	Nov 2010	13.9%	5.6%
MERS	May 2013	10.7%	18.0%
Ebola	March 2014	5.3%	10.4%
Measles	Dec 2014	0.2%	-0.7%
Zika	Jan 2016	12.0%	17.5%
Measles	June 2019	9.8%	N/A*
Average Price Return		8.8%	13.6%

Observations

- **6-month** change of the S&P 500 Index following the start of the epidemic was positive in 11 of the 12 cases, with an average price return of 8.8%.
- **12-month** change of the S&P 500 Index following the start of the epidemic was positive in 9 of the 11 cases*, with an average price return of 13.6%.

The question every investor is asking is, "what does this mean for me?" Neither we, nor anyone else, can predict the course Coronavirus will take. In the same vein, we won't attempt to predict what the markets will do over the next six to 12 months in reaction. We are steadfast in our investment philosophy and comfortable asserting that the investments we own are backed by assets, earnings and cash flows and believe that, over the long-term, those assets, earnings and cash flows will be valued higher in the future than they are today. We are confident in our research and selection process, the due diligence we conduct and our adherence to portfolio diversification. In our opinion, a disciplined, long-focused investing approach functions much the same way that Tamiflu does; it can be a strong prophylactic to protect oneself and/or can reduce the severity and duration of the impact.

We hope we are closer to the end than the beginning, but no matter what, we stand confident on how we are positioned for the future.

The views expressed are the opinion of Riverwater Partners and not to be construed as individualized investment advice.