

Infectious Optimism

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In late January, the coronavirus suddenly infected the financial markets. As a result, the markets suffered a severe performance attack as fear of the pandemic contagion threatened to disrupt the global economy. After unexpectedly robust returns in 2019, investors were looking for a catalyst to reverse market momentum. While the coronavirus appears to be an exogenous event, it reinforces the 2020 theme of unpredictability. Although the U.S.-China trade war has subsided, there is heightened concern that central banks' ultra-accommodative monetary policies have led to a resurgence of negative interest rates, low inflation, and modest growth. The re-inversion of the U.S. yield curve and a 41 basis point drop in 10-year U.S. Treasury yields in January may be symptomatic of a change in economic outlook. There is an emerging viewpoint that the Fed may cut interest rates in 2020 to spur growth if the markets remain infected by the low-growth bug. The coronavirus could test the immune system of the global economy, leading to a reactionary reduction in risk-taking.



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