

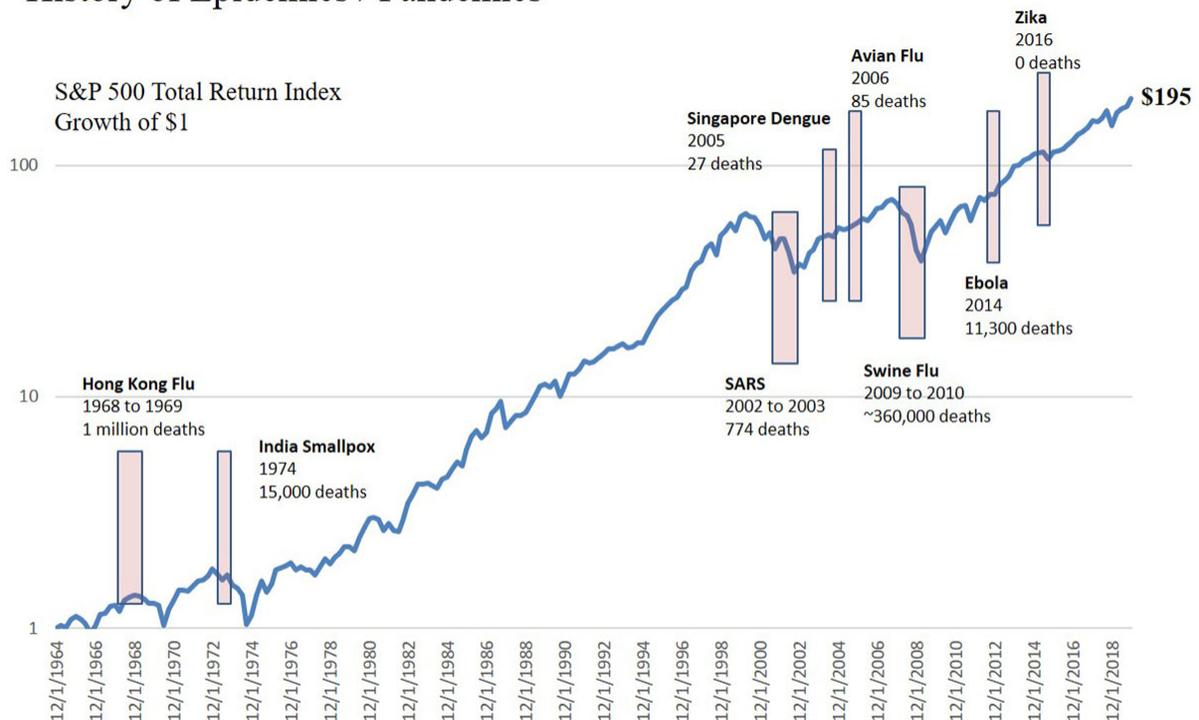
## Client Update: The Coronavirus and Market Outlook

The Coronavirus appears to be stabilizing in China, but new cases are emerging in other countries around the world. Financial markets have moved sharply downward as concerns have grown over the global spread of the virus. This has justifiably led many individuals to be concerned about not just their own health, but also about the health of their portfolio. While it is impossible to predict exactly what the epidemiological path of the virus will look like, there are helpful reference points that can give guidance over likely market outcomes.

When facing a “known unknown,” like the Coronavirus, it can be helpful for an investor to step back and view their investments from a couple of different perspectives. First and foremost, exogenous shocks like these are a good reminder of why it makes sense to maintain a balanced portfolio allocation that addresses meeting near-term needs and providing stability of capital, along with the desire for long-term growth. In these environments, cash and bonds serve as a ballast and can be used to meet expenses, keeping a long-term investor from being a forced seller of equities into market weakness.

Second, equities are long-term investments in individual businesses. While the prices of stocks often move rapidly in reaction to changes in near term earnings expectations, the intrinsic value of underlying businesses often change much more slowly. This is not meant to understate the human and economic impact that is likely to take place this year as supply chains are interrupted and consumer behavior changes. However, using previous epidemics such as Ebola, bird flu, SARS, and West Nile Virus as a guide, the impact to the long-term cash flows of businesses is likely to be minor. It is these long-term cash flows that determine the value of a business. Below is the S&P 500 Index's previous performance through various health epidemics.

### History of Epidemics / Pandemics



Source: Morningstar Direct and Centers for Disease Control and Prevention

While we don't underestimate the severity of the Coronavirus, we also realize that healthcare scares like this one eventually end. From that perspective, we view the impact as a short-term phenomenon and we do not expect significant changes to the long-term viability of most high-quality businesses.

As one investment manager recently pointed out to us, financial markets have seen multiple shocks over the past quarter century, including prior epidemics, multiple wars, and a global financial crisis, yet the S&P 500 Index increased ninefold over that time frame. In our opinion, markets thrive despite these macro shocks because macro-shocks are often temporary and do not impact long-term cash generation.

Please don't hesitate to contact us if you have any questions or concerns.

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**S&P 500 Index:** Measures the performance of the 500 leading companies in in the large cap segment of the market. Companies are chosen based upon their market size, liquidity and sector. Together these companies represent approximately 80% of the available market capitalization.

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