

Update: Coronavirus and the Markets - What We're Watching

Unfortunately, this week was one of the worst weeks in the history of the US Stock Market. We saw the market drop from all-time highs through correction territory (-20%) in the shortest amount of time on record. While the longest bull-market run in history ended yesterday with sharp losses (-9.5%), the market rallied today during President Trump's press conference, posting their largest single-day gain since October 2008. The Dow Jones Industrial Average had its biggest-ever one-day point gain.

Stocks plummeted on Thursday partially due to the government's fiscal plans and the Fed's move to provide liquidity injection, which has likely only bought some additional time until what the markets are assuming will be a rate cut to zero and a sizable economic stimulus package. While necessary, it wasn't sufficient enough to offset the economic impact from the coronavirus. However, just as we have reported time and time again, market volatility is a normal occurrence. So as we arose today, amid Thursday night's news from Speaker of the House, Nancy Pelosi announcing that they are nearing a deal on the coronavirus bill, we saw Futures start to look promising ultimately fueling encouragement in the market. We also saw other countries getting involved to offset the global market sell-off which helped boost equities.

What drives share prices is demand to own shares from buyers and interest to unload shares by sellers. When there are more sellers than buyers, prices decline. When there are more buyers than sellers, prices rise. There is an emotional factor that can play into the markets reactions as well – when there is fear you often see a downturn, and with a sense of stability you see an upturn. The bear market that began on February 20, 2020 seems to have been driven by panicked selling, perhaps compounded by quantitative strategies and algorithmic trading that blindly trade on rules when thresholds are reached. This panic-stricken emotion has elicited fear and confusion.

So what has caused the panicked selling? Of course, concerns about one's health and safety in light of the virus has been paramount, and these concerns have had subsequent effects on the markets. A relatively new field called behavioral finance has allowed us to better understand the influence of psychology on the behavior of investors, their self-control, and self-bias influences. These innate emotions can result in irrational short-term behavior when human beings feel threatened. Couple that with a "fear contagion", or fear-based behavior, from the Coronavirus – the spread of an idea or emotion from person to person – exhibited by the run on toilet paper at stores around the country.

The President Declared a National Emergency, Now What?

President Trump this afternoon declared a national emergency over the coronavirus pandemic and invoked the Stafford Act which will free up as much as \$50 billion in financial resources to assist those affected by the outbreak. While reports have stated that the Coronavirus situation will get worse before it gets better, our risk avoidance emotion is much stronger than our greed emotion. Investors seem to be selling into the downdraft simply to stop the near term pain despite the implications to what it might mean to their future. Government assistance has started to take effect, expedited FDA approval on COVID-19 tests has been issued and as of Sunday will begin to be distributed starting with half a million (locations will be announced), along with an additional 1.4 million tests next week, and 5 million within the next month. Additionally, hospital constraints have been lifted on the local and national level, and Google has built an information website where you can go to answer

questions about your symptoms and risk factors and locate the nearest drive-thru testing facility to you with results returning in 24-36 hours. Studies have shown there seems to be some benefit from the use of rheumatoid arthritis drugs on the symptoms of some patients that are experiencing difficulty with COVID-19. There is also some early progress on both a treatment for the virus as well as a vaccination, but these require production and clinical trials before they would be available in the marketplace.

We are watching for signs of retaliation and believe the markets will start to return to a normal state when there is a greater sense of stability and safety for our people, a thoughtful and coordinated health care response is fully executed, and an insertion of fiscal efforts (in progress) to keep us afloat.

It goes without saying we hope you or any member of your family has not be stricken with this virus and that you and your family remain healthy and safe. As this situation continues to unfold, we will provide reports as the information becomes available to us. Your financial wellness is at the heart of what we do and we will continue to do all we can to keep you informed and your long-term financial view intact. Please reach out to your Relationship Manager with any further questions.

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