

Monthly Market Commentary

The risk-off tone that re-emerged late January has progressed through most of February. As we commented earlier, prior to the escalation of the Coronavirus outbreak, most major economies were closing in on an economic bottom somewhere in the early part of the year. However, the view that market participants anticipated may not come to fruition as expected due to various disruptions on the supply side via global supply chains and on the demand side arising out of reduced activity in an effort to contain the virus from spreading further. The broader impact of the outbreak is yet to be seen and it is extremely difficult for anyone to estimate with any degree of accuracy. This current global dynamic has created a very high degree of uncertainty and while it may be short lived, it may or may not have a material impact on the longer-term economic outlook.

On the fundamentals side, we are coming to the end of the 4th quarter of 2019 earnings season for S&P 500 companies. So far, 96% of the companies reported aggregate sales and earnings growth of 5.8% and 3.1%, respectively. This compares to sales and earnings growth of 3.9% and -0.3% reported in the 3rd quarter of 2019. Although sales and earnings have shown some improvement, guidance and forward outlook from companies has been somewhat muted given the current risk of the Coronavirus.

We have been conservative and maintained a slightly lower exposure for some time now, given the late cycle dynamics in the USA and mixed economic signals globally. With the elevated uncertainty born out of the Coronavirus fears, we have further reduced exposure until there is a much clearer sight of its real impact globally.

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