

SPECIAL REPORT: Markets Rattled by COVID-19: AMG's Perspective



Global Impact

The impact of COVID-19 (the most recent Coronavirus) on the global economy and financial markets may be severe in the next few months, but history doesn't show an epidemic or even pandemic that derailed the economy and financial markets for a protracted period of time. Even the "Spanish flu" of 1918, the worst pandemic of the 20th century, was largely overcome within a year, and COVID-19 has been nowhere near as deadly. While COVID-19 is roiling markets, this is not a time to abandon your long-term investment strategy.

Caution Warranted

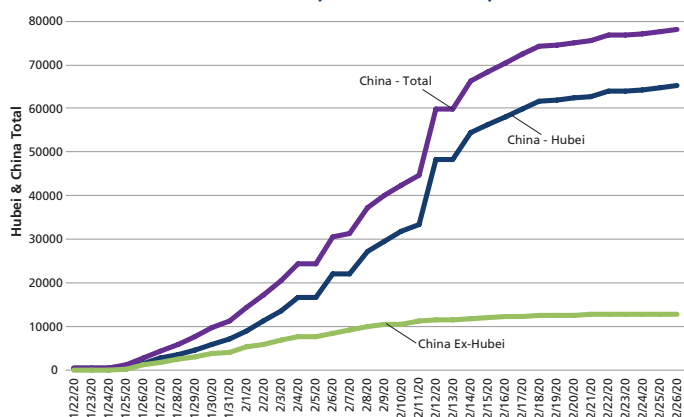
Global equities have had their fastest correction of over 10% in modern history. Through the end of trading in the stock market on Thursday, February 27, the S&P 500 had fallen at one point to over 15% from its all-time high close in January. COVID-19 is expected to have a material impact on global economic growth—creating significant volatility in stocks—for at least the first half of this year.

In this volatile market, portfolio diversification and commitment to long-term strategies are key to mitigating downside risks. Valuations for global equity markets may well continue to compress due to the expected economic disruptions that this virus will have on the global supply chain, cross-border flow of goods and people, and reduced consumption associated with quarantines and shifts in consumer behavior. We expect further market reductions, particularly in foreign equities, in the shorter term as the market assesses the fallout from the virus to economies and corporate profits. The impact of the virus in the U.S. is expected to be less than in many foreign countries. Because of this, in January we put purchases of additional foreign equities in portfolios on hold. The long-term opportunities in global equities—including foreign developed and emerging stocks—will eventually emerge.

Global Outbreak

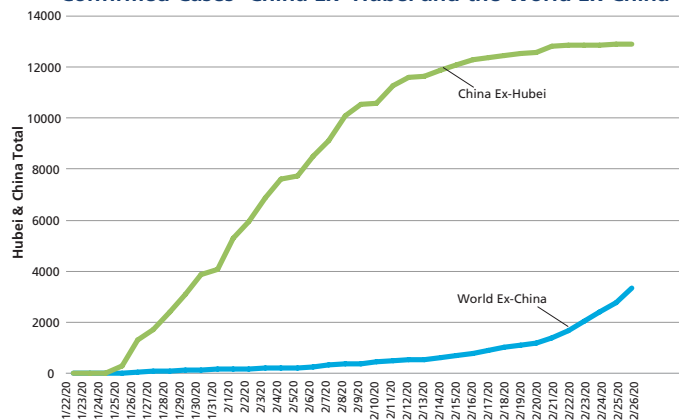
The market volatility that we've seen this week is fueled by the spike in confirmed cases outside of China in Europe, the Middle East, North Africa, and Asia.

Confirmed Cases - Hubei, China Ex-Hubei, and China Total



To put this in perspective however, the world (excluding China) has only a fraction of confirmed cases compared to those in mainland China (excluding Hubei province). Those cases appear to be growing from a low level while China's are flattening.

Confirmed Cases -China Ex- Hubei and the World Ex-China



The U.S. Center for Disease Control and Prevention (CDC) also issued a warning that eventually COVID-19 may spread more broadly to the United States. Simultaneously, the rate of confirmed new cases of the disease in China has fallen dramatically. The mortality rate of the virus indicates that it is not as big of a threat to human life as some other deadly epidemics, but its ability to spread is significantly higher.

Treatment Resources Mitigate Impact

The U.S., China, and Europe are each racing to find a vaccine while simultaneously making rapid improvements in treatment methods. Vaccine development may take 12 months in a best-case scenario according to experts. In the meantime it is clear that in areas with enough medical resources and improved treatment methods, mortality rates are falling while recovery rates are improving dramatically. There also is hope that the virus will be mitigated by warming temperatures (spring will be especially welcome this year), and quarantines are helping to slow the spread – buying time for improved treatment and an eventual vaccine.

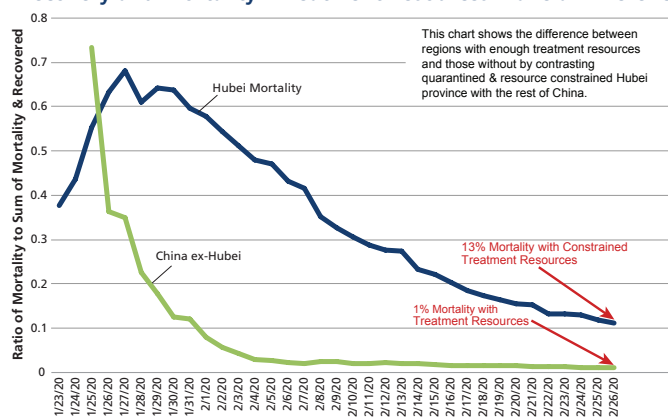
President Trump has requested \$2.5 billion in additional funding to combat the virus, while members of the Senate may put forward an \$8.5 billion package. The U.S., China, and Europe are all quickly continuing to expand capacity to handle new cases.

The Bottom Line

The world will weather this storm, but the markets will be rocky for at least the first half of this year. Now is not the best time to increase foreign equities, but the time will come to take advantage of the longer-term opportunities in the foreign markets.

We often get questions of “should I hedge my portfolio” or “should I get out of the market?” Sticking with your long-term investment strategy and relying on diversification is the best course of action. Diversification is an excellent hedge, particularly if one has enough cash and cash flow to weather a down market without selling. During these volatile market periods, other hedging strategies are usually extremely expensive. Plus, getting out of the market after it has already fallen 10%-15% significantly reduces a portfolio’s ability to recover from the loss. The storm may get worse for some time, but we already see signs of significant economic stimulus by both monetary and fiscal policy makers across the globe. The world is responding aggressively to combat COVID-19 from both a human and an economic standpoint.

Recovery and Mortality - Treatment Resources Make a Difference



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