TW ADVISORS

Newsletter March 2020

MARKET REACTION TO CORONAVIRUS

Financial markets certainly got investors attention falling by double-digits in a week. Volatility causes investors to shorten their time horizons and many times make poor decisions. It is important to separate short term thinking from long term consequences surrounding the impact of the coronavirus.

LONG TERM:

• Stock will most likely provide attractive returns over the long term.

• The S&P 500 is yielding more than 30-year Treasury Bonds which last occurred at the depths of the financial crisis.

• The most important factor in the months ahead is whether the coronavirus causes a global recession which would increase the chances of this correction turning into a bear market.

• The suddenness and veracity of the sell-off in stocks and the collapse in bond yields is a signal financial markets are worried about a negative economic outcome.

SHORT TERM

• Most trading indicators are very oversold, and a snap-back rally is not a surprise.

• An argument can be made that the correction correctly adjusted for the reality that a rebound in corporate profits that was expected is not going to take place due to the coronavirus.

• We anticipate that volatility will remain elevated.

• The biggest central banks are currently injecting over $100 billion per month into the markets. Any further actions could be the catalyst for a rally.

Clearly, we are experiencing something unique where the outcomes are far from certain. According to the New York Times, the virus has resulted in 760 million people being put under quarantine at some point, an undertaking never seen before in human history.

Disruptions after a long trend in the market are a good time to review your portfolio allocation to stocks versus fixed income.

Please give us a call if you would like to conduct a review.

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