

Coronavirus Outbreak Causes More Widespread Selling

The stock market fell for the second straight week, as the continued outbreak of the coronavirus dampened risk sentiment and raised concerns about growth prospects. The S&P 500 (-2.1%), Dow Jones Industrial Average (-2.5%), and Russell 2000 (-2.9%) dropped more than 2%, while the Nasdaq Composite (-1.8%) fared slightly better.



The Nasdaq was the lone index to close the month higher (+2.0%). Losses were made most prevalent in the S&P 500 energy (-5.7%), materials (-3.5%), and health care (-3.3%) sectors. The consumer discretionary (+0.1%) and utilities (+0.8%) sectors finished higher, but the 7% post-earnings gain in Amazon (AMZN) helped mask the weakness in the consumer discretionary space.

Although investors tried to dismiss the seriousness of the coronavirus amid several buy-the-dip efforts, the virus was ultimately impossible to ignore. Reports proliferated about the rising death toll in China, the reduced economic activity in the region, the first confirmed case of a person-to-person transmission of the virus in the U.S., and the growing cases around the world.

The World Health Organization declared a global health

emergency but did not recommend restricting the movement of people and goods since evidence showed it may be ineffective. That didn't stop President Trump from enacting temporary travel restrictions or Delta Air Lines (DAL), United Airlines (UAL), and American Airlines (AAL) from suspending U.S.-China flights, though.

The underlying view was that a reduction in global economic activity would adversely impact the earnings expectations that lofty stock valuations have been predicated on. Others viewed the virus as a convenient excuse to take profits from a market that had gotten too overextended.

There were plenty of discouraging earnings news that fed into the growth concerns, too. Facebook (FB), Caterpillar (CAT), Visa (V), UPS (UPS), 3M (MMM), Pfizer (PFE), and DuPont (DD) were among the many disappointments. Tech titans Apple (AAPL) and Microsoft (MSFT), however, did report strong results.

Separately, the Fed left the target range for the fed funds rate unchanged at 1.50-1.75% and extended repurchase operations though at least April. The latter was perhaps the only surprising thing to come out of the policy meeting.

U.S. Treasuries ended the week with more gains amid the growth concerns. The 2-yr yield and the 10-yr yield dropped 16 basis points each to 1.32% and 1.52%, respectively. The U.S. Dollar Index declined 0.5% to 97.37. WTI crude fell 4.9%, or \$2.63, to \$51.58/bbl.

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