Coronavirus and Crude Meddle with Markets

By John Curry

On Monday, March 9, the Standard & Poor's 500 fell 7 percent at market open, prompting a 15-minute market halt, as investors expressed their anxiety about the coronavirus's economic impact and reacted to an oil price war between the Organization of the Petroleum Exporting Countries (OPEC) and Russia that erupted over the weekend. Oil dropped almost 30 percent when OPEC failed to strike a deal about oil production cuts. Meanwhile, the yield of the bellwether 10-year U.S. Treasury sunk to less than 0.5 percent as investors sought security in safe haven assets.

Last week was a volatile one for global stock market investors as they tried to assess the coronavirus's impact on global supply chains and corporate earnings—and weigh the possibility that the economy would tip into a recession. The Federal Reserve made an emergency rate cut to combat the economic impact from the virus, its first such move since the financial crisis. While some investors were heartened by the Fed's move, for others, it confirmed the direness of the economic situation.

Regardless, investors remain in a heightened state of anxiety over coronavirus and continue to recalibrate market expectations as new information emerges. In our judgement, the great majority of the economic and market risks stemming from the coronavirus are short term in nature. While many Chinese factories have been closed, they were not destroyed as if by war or natural disaster. In fact, factories in China are reopening and new cases in South Korea appear to be waning.

Even as the situation in China is recovering, other parts of the world are planning for a prolonged period of disruption. And investors are attempting to quantify the follow-on effect of falling demand for goods and services that could very well outlast the virus's direct disruption of the global supply chain and economy.

In fact, over the past month, demand for everything from oil to industrial metals like copper and zinc to wheat has fallen noticeably. Prior to this weekend, for example, crude oil (as measured by WTI Crude), had fallen more than $12 from $53.88 to $41.28, a 23 percent drop. It is in this context that oil prices plunged further today—to multiyear lows—as tensions between Russia and Saudi Arabia escalate, sparking fears that an oil price war has begun.

The sell-off in crude oil began last week when OPEC failed to strike a deal with Russia about oil production cuts. Saudi Arabia, in turn, decided to cut its oil prices and reportedly looks to escalate production. This breakdown between OPEC and Russia—and the resulting price drop—caught investors by surprise, even as they grappled with other major considerations.

As discussed in our last Market Thoughts (dated 2.28.2020), we expect a period of recalibration, during which investors will reassess their expectations for the virus's impacts—direct and indirect—on companies, industries, and key measures of economic activity. Of course, not all businesses will have the financial reserves to weather the storm, so the initial recovery period could be uneven. And some industries will be more impacted than others, which is already being reflected in stock prices. For example, energy and bank stocks have sold off in today's market.

As always, a well-diversified portfolio tailored to your appetite for risk and personal financial goals and objectives is the best long-term strategy and can help provide the peace of mind necessary to stay the course through volatile markets. You should expect continued market volatility as investors weigh new data and adjust their expectations. This recalibration can take time as trends and a better understanding of the risks and impacts emerge.

Periods like the one we are experiencing are causes of concern, but they often also create opportunity for long-term investors. Market pullbacks provide investors with catalysts to consider their asset allocations and ensure that they are taking an appropriate level of risk. They also provide opportunities to rebalance—by buying the weaker asset class with proceeds harvested from the stronger—to keep portfolio risk levels in check.We will be tracking the virus's spread—and resulting economic impacts—actively, and we will keep you apprised of what we learn. In the meantime, please reach out to your CAPTRUST financial advisor if you have questions or concerns.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948 or schedule an appointment with a retirement counselor today.

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