



**SILVERCREST**  
ASSET MANAGEMENT GROUP

## MARKET UPDATE

Markets have again encountered turbulence due to renewed concerns about the economy's growth prospects.

Further, the COVID-19 virus's (novel coronavirus) potential disruptive effect on communities and economic supply chains now dominate news coverage. The stiff headwind blowing from Wuhan, China, batters what was otherwise the United States' improving economic climate.

We are in close contact with a wide network of medical, economic and market experts, and Silvercrest closely monitors developments related to COVID-19. We will provide an in-depth review of our research in coming days.

While we have no reason to expect disruptions to our business or vendors, consistent with best practices, we regularly review and test business contingency plans. We will remind clients of Silvercrest's preparations in a note from our CEO, Richard Hough.

Markets were long overdue for a correction, and the current disruption likely will prove to be a "normal" correction. We expect the first two quarters of the year to experience economic disruption, after which the economy should resume slow forward progress, under a working assumption that the virus will come under control.

Monday's market decline is consistent with concern whether COVID-19's effects will mostly be contained to China. It represents a "fair" adjustment to market values given what may be a disruptive stretch of economic data and uncertainty with regards to the path of the virus.

At a news conference Monday, the World Health Organization ("WHO") presented a somewhat favorable view of the situation in China: "We are encouraged by the continued decline in [new] cases in China." WHO's comments about the global outlook were more mixed. WHO noted the high uncertainty, stating that "the virus may settle down into an endemic pattern of transmission, into a seasonal pattern or could accelerate into a full-blown global pandemic. At this point it is not possible to say which of those realities is going to happen." Viruses are confusing and scary; it's no surprise this virus worries markets.

The question is simply, "how bad will it be?" Medical experts consider COVID-19 to be less deadly but more widespread than SARS, but somewhat more deadly and far less widespread than the flu. Much of the answer depends on how long the outbreak lasts. The economic calendar is fortunate in that the early weeks of disruption coincided with the Lunar New Year. Additionally, four weeks remain in the first quarter. To the extent economic damage can be contained primarily to Q1, we will have an easier "look through" to future quarters. Presently, some activity is beginning to resume in China, albeit in fits and starts. While cases continue to pop up around the globe, it appears that the situation in China is improving rather than deteriorating. The longer the virus can be slowed, the more likely supply chains can be shifted and other disruptions ameliorated. The Marco Polo think tank of the Paulson Institute notes that "the current production bottlenecks could evaporate fairly quickly."

The virus and volatility are likely to hang around for a bit. While the verdict from global markets yesterday was a steep sell-off, year-to-date results for the S&P 500 are essentially flat. Nonetheless, sudden downward moves always feel awful. Yet, they occur—much more often than we realize. While some calendar years see no major

single-day decline of 3% or more, such difficult single-day declines occur, on average, 2–3 times per year. The antidote to volatility will be clarity that peak virus and economic disruption has passed.

Economic data rarely provide great clarity, and there is no doubt that figures will deteriorate in coming weeks as the effects of the quarantined Chinese economy spread globally. With weather, we don't know if one day in March will be warmer than the next, but we can say with high probability that April will be warmer than February. Similarly, we urge caution against trying to time the turns in the virus or the economy. Absent a dramatic change for the worse in damage from the virus, we are likely to learn that economic data will unfold like the weather patterns for this time of year in the Northeast—highly volatile but spring will eventually emerge.

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