

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished February at 25,409 down -10.07% for the month and -10.96% year-to-date. The S&P 500 closed February 28 at 2,954 down -8.41% for the month and -8.56% so far for the year. The NASDAQ Composite fell -6.38% in February, and -4.52% for the year. Small-company stocks, as measured by the Russell 2000, ended February at 1,476, down -8.53% for the month, and -11.51% year-to-date. Energy (-14.90%) was the worst-performing sector in February.

"It's very scary on a personal level, and I think that psychology pervades through the market," said Sam Hendel, President at Levin Easterly Partners. "As an investor, my job is to keep a cool head." (The Wall Street Journal, *Dow Industrials Fall as Virus Fears Show No Signs of Easing*, Caitlin Ostroff, February 27, 2020)

Special Edition: Coronavirus Triggers Market Correction

Stocks are trading -10.73% below their all-time high at the time of this writing, following multiple days of sharp losses. Investors have likely seen the recent headlines highlighting 1,000+ point drops in the Dow Jones index, and news of the virus' spread in South Korea, Iran, Italy, Spain, and even the U.S. Investors are people too, and many may be worrying not only about their retirement account or their church's endowment but also about their health and their ability to ride subways or airplanes, to go to the movies or the grocery store. We'll cover the latest developments in this newsletter and provide our thoughts as to the best way to navigate the uncertainty.

Update: Virus Spreads Globally

When news of the novel coronavirus (COVID-19) spreading in the Chinese city of Wuhan first broke in late January, markets were rattled for just a few days before rallying to new highs through mid-February. Many observers considered a synchronized response globally to contain the virus a positive and expected the economic impact may be reversible if the Chinese outbreak were contained in a matter of weeks. A month later the sentiment is much more negative, as cases have appeared in six continents and 46 countries. For the first time last week, new cases outside of China exceeded the new cases in China. Tourists in a Spanish hotel are quarantined, much of the South Korean city of Daegu is shut down, and Japan announced plans to close all schools for the month of March while many worry about their ability to host the 2020 Summer Olympics. Sentiment has moved from many more or less ignoring the virus and its potential impact, to now a great deal of attention and fear around the world. There remains much uncertainty, however, surrounding this outbreak and its ultimate timeline and impact. While very sensitive to the tragic impact and the anxiety a health-related global outbreak can cause, we encourage investors to remain conscious of the great deal we still don't know, and as always to try and avoid making dramatic, long-term investment decisions based on short-term swings and volatile news headlines in the markets.

"The extent of the economic damage — and whether it could trigger a recession — is difficult for economists to project and depends on whether an outbreak is limited to a city or two, or becomes more widespread — and how the public reacts. Economists, however, expect a swift U.S. recovery from any downturn as companies work to meet pent-up demand from consumers after the health threat subsides." (The Wall Street Journal, *U.S. Coronavirus Outbreak Would Pose Risk to Record Expansion*, Eric Morath, February 27, 2020)

Our View

Despite falling nearly -11% at the time of this writing, equity markets are at levels which were record highs just last summer, and the S&P 500 remains up +26.39% over the past three years. As the market rallied into February, the forward P/E ratios reached levels last seen in January 2018, just before a steep correction. This indicates markets were historically expensive, and optimism was priced in. At such levels, just small amounts of uncertainty can trigger a steep market reversal. While the coronavirus remains very serious, and the elevated uncertainty surrounding its outcome increases risks, it's oftentimes when the feeling to change an investment policy is strongest that its benefit is weakest. We encourage that unless material cash needs or life events are occurring in the next 12 months, investors maintain their multi-decade lens, and remain committed to their long-term plan. Volatility and market swings are a necessary component to long-term returns in the equity markets. Please know we are closely monitoring the situation and welcome your calls and e-mails.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 01/31/2020	CLOSE AS OF 02/28/2020	CHANGE PREVIOUS MONTH END	2020 YTD % CHANGE
Dow Jones Industrial Average	28,256.03	25,409.36	-282.41	-10.96%
S&P 500	3,225.52	2,954.22	-5.26	-8.56%
NASDAQ Composite	9,150.94	8,567.37	+178.33	-4.52%
RUSSELL 2000	1,614.06	1,476.43	-137.63	-11.51%
Fed Funds Rate	1.50%- 1.75%	1.50% - 1.75%	UNCHANGED	
2-Year Treasury	1.33%	0.86%	-0.47%	
10-Year Treasury	1.51%	1.13%	-0.38%	
Crude Oil \$ per Barrel	\$51.56	\$47.09	-\$4.47	-22.88%
Gold \$ per Troy oz.	\$1,587.90	\$1,642.50	+\$54.60	+7.84%
UK Pound in U.S. \$	\$1.3182US = 1£	\$1.2773US = 1£	\$STRONGER	-3.58%
Euro in U.S. \$	\$1.1082US = 1€	\$1.0985US = 1€	\$STRONGER	-2.14%
Canada \$ per U.S. \$	\$1.32255C = \$1.00 US	\$1.34235C = \$1.00 US	\$STRONGER	+3.52%
Japan Yen per U.S. \$	108.385¥ = \$1.00 US	107.865¥ = \$1.00 US	\$WEAKER	-0.75%



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