



There's More to the Stock Market Swoon Than the Recent Outbreak

If there's one thing most investors can agree on, it's that the stock market can be impulsive – especially in the wake of an unexpected crisis. This might be the case with the newest coronavirus epidemic.

What Is the Coronavirus?

The coronavirus refers to an outbreak of upper respiratory illnesses caused by a new coronavirus first detected in Wuhan, Hubei Province, China, in December 2019. While coronaviruses are common throughout the world and generally result in mild to moderate illness, in some recent cases, such as with the SARS-associated coronavirus in 2003 and MERS-associated coronavirus in 2012, coronavirus-related illnesses can be severe.

How Is the Coronavirus Outbreak Connected to the Stock Market?

For several weeks after the first reported incident of the new coronavirus, the outbreak was mainly contained within China. On January 13, however, came the first report of a coronavirus patient in Thailand, and incidents in other countries soon followed. Over the weekend of January 25–26, China declared a level 1 health emergency, and the United States first reported patients of coronavirus-related illnesses in California and Arizona. On Monday, January 27, the stock market experienced its most significant

decline since October, with the Dow Jones Industrial Average falling more than 450 points.

How Will the Coronavirus Impact My Portfolio Going Forward?

In the past, stocks have rebounded well after the initial shock of a coronavirus outbreak. Six months after the SARS epidemic in 2003, for example, the S&P 500 was up over 14% and had advanced more than 20% in one year. It's a similar story for the MERS epidemic in 2012: The S&P 500 was up more than 10% in six months and nearly 18% in one year. While it's too early to tell if the stock market will follow a similar pattern with this new coronavirus outbreak, it's worth noting that after the 450-point drop on January 27, the Dow Jones Industrial Average rebounded by 187 points on January 28.

But there's a larger point to be made as well: While noise of the coronavirus was dominating the headlines, there was actual market news that could have a more direct impact on your portfolio. For example:

- While stocks were making new highs in January prior to this news, bond yields were peaking in December, suggesting the economy might not be as strong as recent market gains would suggest.
- Investor sentiment had become exceedingly high immediately before the crisis, and while some degree of market optimism is a healthy indicator, overconfidence (or complacency) often correlates with a coming market pullback.
- Crude oil prices have been dropping steadily since the first week of January and currently are below \$55/barrel, lows not seen since October 2019.

The truth is, the market tends to act impulsively in the face of a public health crisis – especially one originating in a foreign country but finding its way to the U.S. shores. This is due partly to investors' susceptibility to fear and partly to the tendency for crises to reverberate on television and social media. Whatever the reason, when an outbreak like this dominates the news cycle, it's easy for investors to overreact. That's why in times like these, we strongly recommend you connect with your Baird Financial

Advisor – they can help you separate the news from the noise and make sure you're making prudent financial decisions for the long term.