



February Monthly Recap: Stocks Post Worst Day Since August as Coronavirus Fears Grip Markets

Wall Street and global stocks plunged anew on Friday January 31st, as China's coronavirus outbreak cast a dark shadow over global growth prospects. With the decline, the Dow and S&P 500 slid into negative territory for January while European and Asian stocks followed suite.

Coronavirus Grips Markets

China's coronavirus outbreak has reached epidemic proportions with more than two dozen countries reporting cases of the novel illness. More than 17,000 infections have been confirmed, though researchers fear that number could be closer to 76,000 in Wuhan province alone.¹ The number of confirmed cases has already overtaken that of the SARS epidemic between 2002-03.²

Federal Reserve Chairman Jerome Powell acknowledged that the illness could impact global growth prospects. In delivering the Fed's January policy statement, Powell said coronavirus is a "serious issue" and that "there is likely to be some disruption of activity in China and probably globally."³

Stocks Plunge

Uncertainty over the impact of coronavirus triggered a massive selloff in global equity markets on Friday. In the final trading session of the month, the Dow Jones Industrial Average plunged more than 600 points, its worst slump since August.⁴ The large-cap S&P 500 Index fell 1.8% and the Nasdaq closed down 1.6%. The slide pushed the Dow and S&P 500 into negative territory for the month.

In Canada, the benchmark S&P/TSX Index fell 1% on Jan. 31, trimming its year-to-date returns to around 1.5%.

European markets were down across the board, with the Euro Stoxx 50 Pr falling 1.5% on Friday and 3.5% on the month, according to Bloomberg data.



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Rise of the Safe Havens

January was a bullish month for gold, as demand for haven assets continued to grow. The yellow metal peaked at \$1,169.60 a troy ounce, its highest in around seven years.

Bullion ended January at \$1,587.90 a troy ounce, having gained 4.3% since the start of the year.

Anxiety over coronavirus and global economic health pushed investors into the relative safety of government bonds. The benchmark 10-year Treasury yield plunged nearly 40 basis points in January, its biggest monthly decline in five months. The free fall inverted a key part of the Treasury yield curve, a strong signal that investors were hedging against recession.⁵

Fed Stands Pat

The Federal Reserve concluded its first policy meeting of 2020 by voting to leave interest rates on hold. As expected, the target for the federal funds rate remains between 1.5% and 1.75%.

Central bankers have signaled that rates will remain on hold for 2020 but markets are betting on further reductions in the second half of the year. Fed Fund futures prices imply a strong likelihood of another rate cut after September.⁶

Meanwhile, the New York Fed resumed its repo operations in January, including a fresh \$45.55 billion injection this past weekend. The Fed has been intervening in the repo market since September when overnight interest rates shot up to 10%.⁷

The Month Ahead

With the coronavirus epidemic showing no signs of slowing, investors will be closely monitoring the situation in China over the next month. The epidemic has prompted the World Health Organization (WHO) to declare a global public health emergency,⁸ with major air carriers in the United States and Australia suspending all flights to China.

Investor Education

Canada represents less than 3% of the world's stock market capitalization. Canadians, like others, often suffer from a "home" bias, investing a significant portion of their investments in Canada. This results in Canadian investors missing out on significant investment opportunities available in the rest of the world. Diversifying globally can help reduce the overall risk in your portfolio and give you access to wonderful investment beyond our borders. The Periodic Table of Asset Class Returns illustrates the annual returns of various assets classes globally for the past 10 years. Remember, registered investments such as TFSAs, RSPs and RIFs have no foreign content restrictions.



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Sincerely,

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¹ Joseph Young (January 30, 2020). "Bombshell Study Estimates 75,800 People are Infected With Coronavirus in Wuhan." CCN.com

² BBC News (January 31, 2020). "Coronavirus: Worldwide cases overtake 2003 Sars outbreak."

³ Sam Bourgi (January 29, 2020). "U.S. Stocks Slam on the Brakes as Fed's Powell Expects Coronavirus to Disrupt Global Economy." CCN.com

⁴ Gunjan Banerji (January 31, 2020). "Dow Drops 600 Points on Global Growth Concerns." The Wall Street Journal.

⁵ Yun Li (January 31, 2020). "Rates plunge in January and part of the yield curve inverts again." CNBC.

⁶ CME Group. CME FedWatch Tool.

⁷ Michael S. Derby (January 31, 2020). "Fed Intervenes With \$45.55 Billion Weekend Repo, But Overall Liquidity Ticks Down." The Wall Street Journal.

⁸ Brianna Abbott (January 30, 2020). "Coronavirus Is Declared a Global Health Emergency as Threat Rises Outside China." The Wall Street Journal.