SUMMIT
ASSET MANAGEMENT

"Infection Correction"

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Dear Clients and Friends: March 5, 2020

Stock markets around the world have attempted to digest a tremendous number of scenarios in an extremely short period of time. If you've watched CNBC or followed the news, you have seen how messy this process has been. Last week, the S&P 500 fell 11%, notching a new record for the fastest correction ever. This week produced more volatility, and as of this writing, a modest rebound.

Obviously, the bulk of news has been regarding the coronavirus, or COVID-19. You no doubt know as much about this "novel" virus, its symptoms and outcomes, as we do. So, we won't go into those details here. However, the virus's introduction to humans has obviously become top of mind for almost everyone, everywhere. While equity markets in China started to sell off in mid-January, the U.S. and Europe held mostly steady. It was only last weekend, when the virus showed up in Italy and South Korea, that our markets started to recognize the uncertainty it would bring. We will speak more to our outlook later in this letter.

Also affecting markets over the last ten days have been the multiple Democratic primaries. With Bernie Sanders's early momentum and victory in Nevada, volatility spiked. As mentioned in previous writings, equity markets had not priced in a real chance of a Sanders presidency. Then, on Super Tuesday, the surprise come-back and strength of the more moderate Joe Biden swung the markets in the other direction. His taking the momentum and narrowing of the field was a relief to the market, reducing prospects of a too-far-left administration.

Additionally, on Friday, the G-7 central banks issued a joint statement regarding the coronavirus. While promising whatever support was necessary to keep the global economy running smoothly, they offered no specific actions. Then, on Super Tuesday, the Federal Reserve issued an emergency 0.5% rate cut to the Fed Funds Rate. This was larger and sooner than expected, especially given the lack of reported cases in the U.S. The onset of volatility is understandable, given the surprising nature and volume of information to digest over such a short period of time.

Coronavirus Outlook

Any virus having the potential to take human life is a tragedy, transcending the temporary collateral damage that may be caused to economies or financial markets. We recognize it as such and offer our prayers and sympathies to anyone who is affected by the coronavirus. Sadly, however callous it may be, financial markets don't really care about our health. They care about our spending patterns. The biggest concern at present is will Americans stop eating at restaurants, going to movies, shopping locally, shun sporting events, cancel Spring Break plans, cancel summer vacations? Will governments close schools and will companies send workers home? And, if any of this happens, how long will it last?

Stock prices are estimates of future profits for companies, and when those profit expectations change, stock prices change sometimes very quickly. Equity markets are trying to discount how much our economic activity will be affected and for how long. That is the pressing question and unfortunately, no one knows the answer.

Companies are negatively affected in two ways. The first is a postponement of sales. Supply chains can be disrupted, causing low inventories, or customers may choose to delay their purchases by the avoidance of public places. These sales should eventually occur, just at some point in the future. Companies' cash flows are only temporarily hurt. The other, more harmful, negative effect is time sensitive or service-oriented sales that get lost. An example is a hotel room or a trip to your favorite restaurant. If a trip is cancelled, resulting in a hotel room not being sold and a restaurant meal forgone, that is lost revenue that can never be recouped. You can't sell a room or a meal today, for yesterday. This is one of the reasons that stock prices of hospitality companies (hotels, airlines, cruise companies, etc.) have been some of the hardest hit.

We don't know how long this will last or how deep the economic impact will be. We would expect to be dealing with the virus and its aftereffects for the remainder of 2020, with a return to normalcy in 2021. However, we do know that the global economy was already strong and improving heading into this event. That puts us in a better position to withstand the disruptions. We also know this is not a multi-year issue. The virus will eventually run its course. We will develop therapies to treat and vaccines to limit the effects in the future. We also know that the future holds another virus by another name.

	Market Returns		
Epidemic	1-month	3-month	6-month
HIV/AIDS	-0.46%	-4.64%	-3.25%
Pneumonic Plague	-2.79%	-4.67%	-4.30%
SARS	8.64%	16.36%	21.51%
Avian Flu (H5N1)	-0.18%	2.77%	10.05%
Dengue Fever	1.07%	7.09%	9.68%
Swine Flu (H1N1)	10.90%	19.73%	39.96%
Cholera Outbreak	-2.35%	7.02%	13.61%
MERS	-0.29%	2.15%	8.58%
Ebola	-0.09%	2.37%	4.37%
Measles/Rubeola	-1.71%	1.92%	2.29%
Zika	-6.05%	-0.88%	-0.57%
Ebola	-7.42%	-13.74%	-3.49%
Measles	6.46%	4.51%	12.02%
Average	**0.44%**	**3.08%**	**8.50%**

While coronavirus could become something worse than expected, history tells us it won't. The likely effects will be minimal in the longer term. Above is a chart listing over a dozen viruses the world has endured over the last 50 years and their effects on global stock market performance. We would expect that this will ultimately be just another dot on the chart.

As always, we thank you for your continued confidence and trust, and we welcome your comments, questions, and referrals. Please don't hesitate to contact us.

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