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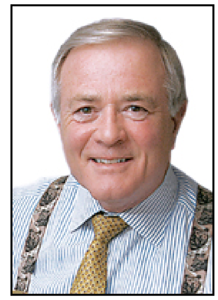

William Rutherford

OP-ED: Virus disrupts financial markets' surge

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"It's very hard to say what is affecting financial markets with any precision or confidence." – Jerome Powell, U.S. Federal Reserve Board chairman.

Longtime readers of this column will recall that I am fond of quoting Will Rogers, who had rare sagacity. He once said "it is very difficult to make predictions, especially about the future." Now, our Federal Reserve chairman agrees with him.

As we started the year, rosy optimism prevailed. The equity markets were up. Strength in the markets begat more strength, and it looked like we were off to a good start for the year. A good start to the year usually means a good year; optimism prevailed. The Federal Reserve met and pronounced the economy solid. The Fed declined to move rates, because a cut wasn't needed, and an increase was not warranted. President Trump did not agree: The Fed should get smart and cut rates, he opined, arguing that high interest rates were putting the U.S. at a competitive disadvantage. (Interest rates are at historically low levels.) The president yearned for the negative interest rates of Europe, but they weren't forthcoming.

Unemployment remained low. Consumer confidence stayed strong, even as consumer stocks, as measured by their ETF, were weak. U.S. growth in domestic product was the slowest since 2016. The president blamed the Federal Reserve, but not the trade war.

As always, there was plenty to worry about. The markets were overextended, and a correction was due. Still, the equity market marched ahead; until it didn't. News of a new virus spreading globally hit, and markets tumbled. Since it is hard to make predictions about the future, it is unknown at this time what the virus means for the market, but it does add uncertainty. We do know that the markets hate uncertainty.

More uncertainty came from an impeachment trial and upcoming elections. The market had plenty to worry about. Something was bound to trip up the market, and the virus did. Still, the S&P, the measure of the broad U.S. equity market, was down only 0.16 percent for the month of January. The market was down 3 percent from its all-time highs – a modest correction so far.

Markets have the Fed and President Trump at their backs. Federal Funds Futures moved to an indication of a rate cut by June. That should be enough for a solid recovery from this (slight so far) correction. Time is on the side of those patient (no pun intended), because time provides the opportunity to find a cure for the disease. But it also gives time for the virus to spread. Deadly viruses tend to kill their hosts and thus die out. At this point, the progress of the virus is speculation, so see Jerome Powell's quote above.

In the meantime, earnings reports have been strong, which bodes well for the economy. As always, invest in the fundamentals, not the headlines.

Remain diversified. Remain invested.

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