



Market Comment

- The roughly 14% decline in the *S&P 500 Index* since February 19th represents the fastest technical correction in stock market history¹ (a “correction” is defined as a drop of 10% or more).
- The catalyst was the sharp rise in Covid-19 cases in Europe, South Korea, and Iran, which crystalized visions of a possible global pandemic with unknowable costs in terms of human life and economic output.
- One place to look for a preview of the future is China – the epicenter of the Covid-19 breakout.
- With the caveat that data from China should be viewed with healthy skepticism, we note the following:
 - a) Multiple health officials inside and outside of China seem to agree that the epidemic peaked in China a few weeks ago, with the number of new cases now on the decline.²
 - b) China first reported the virus to the World Health Organization (WHO) on Dec. 31, 2019.³
 - c) Even assuming a period of foot-dragging from Chinese health authorities, the time between the outbreak of the virus and the peak of its spread does not appear to be very long.
 - d) So far, the peak-to-trough decline in the Chinese stock market since December 31, 2019 has been approximately 16%, with the bottom (so far) occurring on February 4th.⁴
 - e) Even after a 3.7% decline today, the Chinese stock market remains 4.9% above its February 4th low, despite news about Covid-19 being increasingly negative outside of China since that date.⁵
- We suspect the counter-intuitive performance of the Chinese stock market may be driven by the shift in sentiment that frequently occurs when conditions in a crisis simply stop getting worse.
- Investors may be feeling this way about China because the country is making progress returning to work.
- According to *Bloomberg News*, capacity utilization has picked up from about 50% to 60-70%; many companies, especially state-owned industrial firms and manufacturers of medical equipment, have ramped up output; passenger and truck traffic rose by 96% and 136%, respectively, in the week through February 22; companies are organizing busses to return migrant workers to factories; and perhaps most telling of all, *Starbucks* recently reported that 85% of its stores in China have re-opened for business.⁶
- Unless new developments prove us wrong, we suspect the patterns of the Chinese stock market and society might serve as an approximate preview for the rest of the world.

¹ Source: Wall Street Journal; the 14% decline was measured from the high on Feb. 19 through mid-morning on Feb. 28

² Source: Source: World Health Organization; Wall Street Journal

³ Source: Aljazeera.com

⁴ Source: Bloomberg

⁵ Source: Bloomberg

⁶ Source: Bloomberg News; FHN Financial; CNBC

Please see important disclosures at the end of this document. Supplemental to a fully compliant presentation.

- We note as well that the behavior of the Chinese stock market, thus far, fits well with the patterns of global equity markets surrounding the SARS outbreak in 2003, and the Ebola virus in 2014.
- The implication of this mindset for investment strategy is twofold:
 - a) The probability of much deeper losses for global stocks is not zero, so measures should be taken to identify and adjust portfolio risk exposures.
 - b) The potential for equity markets throughout the rest of the world to follow a similar script to China suggests it is also time to pursue opportunities in these stock markets sooner, rather than later.
- We have been doing both in our investment strategies, and expect to continue down this path going forward.
- The last point we wish to make is that our thinking on this critically important uncertainty evolves every day with the emergence of new information.
- We intend to update you on our viewpoint regularly so that you may remain armed with the information you need to disagree with us.
- If our perspective is dramatically out of sync with yours, let's work together to adjust your portfolio toward your comfort zone.

Disclosures

Security Recommendations: The investments presented are examples of the securities held, bought and/or sold in the Capital Advisors strategies during the last 12 months. These investments may not be representative of the current or future investments of those strategies. You should not assume that investments in the securities identified in this presentation were or will be profitable. We will furnish, upon your request, a list of all securities purchased, sold or held in the strategies during the 12 months preceding the date of this presentation. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities identified in this presentation. Capital Advisors, Inc., or one or more of its officers or employees, may have a position in the securities presented, and may purchase or sell such securities from time to time. Additional information, including management fees and expenses, is provided on Capital Advisors' Form ADV Part 2.

This commentary does not purport to be a statement of all material facts relating to the securities mentioned. The information contained herein, while not guaranteed as to accuracy or completeness, has been obtained from sources believed to be reliable. Opinions expressed herein are subject to change without notice.

As with any investment strategy, there is potential for profit as well as the possibility of loss. Capital Advisors does not guarantee any minimum level of investment performance or the success of any portfolio or investment strategy. All investments involve risk (the amount of which may vary significantly) and investment recommendations will not always be profitable. The investment return and principal value of an investment will fluctuate so that an investor's portfolio may be worth more or less than its original cost at any given time. The underlying holdings of any presented portfolio are not federally or FDIC-insured and are not deposits or obligations of, or guaranteed by, any financial institution. Past performance is not a guarantee of future results. Capital Advisors, Inc. does not provide tax or legal advice and recommends you consult with your tax and/or legal adviser for such guidance.

The **S&P 500 Index** is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The S&P 500 is a float-weighted index, meaning company market capitalizations are adjusted by the number of shares available for public trading.

Please contact Capital Advisors for a list and description of all firm composites and/or copy of our most recent Form ADV Part 2 at 866-230-5879.

Presentation is prepared by: Capital Advisors, Inc. and is considered to be supplemental to a compliant presentation. Copyright © 2020, by Capital Advisors, Inc.
www.capitaladv.com

2020.02.28