



## MARKET UPDATE

# Coronavirus Market Impact

## OVERVIEW

The spread of the coronavirus beyond China and a realization of the longer, and sizable, impact on global economies has driven a sharp increase in volatility across markets and a **strong flight to quality**.

As of Sunday, confirmed cases of coronavirus (officially COVID-19) topped 110,000, with the virus claiming more than 3,800 lives. News in the next few days is unlikely to bring much relief, with reported infection and death rates ticking up. Supply and demand disruptions are real, and so is their economic impact. For example, **oil prices recently dropped to ~\$30** (given disruptions to short-term demand) with the economic impact being felt globally. Backward-looking payroll data has been strong, but data going forward is anticipated to deteriorate and firms will continue reducing earnings guidance.

In short, the direction is clear but the magnitude and end date aren't. In the absence of clarity, there seems to be little reason for buyers to come in and support equities in the immediate term (though stocks are still up about 10% over the last 12 months). As much as anything, that assessment seems to be driving volatility.

Over time, stocks are valued on earnings and cash flow, and history is clear that this relationship will return, no matter how long and deep the dislocation is. Many measures of investor sentiment and positioning have gone from overbought/bullish to oversold/bearish, with some indicators suggesting the **market is already discounting no earnings-per-share growth again in 2020**.

We hope the next few weeks will reveal more about the virus and perhaps we'll begin seeing a slowdown of new cases. That development, combined with strong support from central banks and government officials and a generally solid economic foundation, would give us reason to believe that sentiment will improve.

## MARKET OUTLOOK & FED ACTIONS

Last week's Fed rate cut was an attempt to reassure markets, and we think more cuts are coming—in March and beyond. The US economy should rebound in the second half of the year, though at a lower full-year pace.

We expect another cut at the March 18 Fed meeting, with the size based on the amount of economic and financial disruption over the next two weeks. Our initial thought is for another 50 basis point cut. But while rate cuts are normally good news for investors, **we need to be realistic about what central banks can and can't achieve**. Governments will likely turn to a fiscal policy if monetary policy isn't enough.

Ultimately, we think the US economy will resume its previous growth trajectory but simply be missing a few months as a result of the coronavirus impact. We'll reassess expectations as more data emerges.

## WHAT ARE WE DOING IN OUR PORTFOLIOS?

We're being cautious and deliberate in our portfolios. In some cases, we sold stocks most exposed to potential demand destruction from COVID-19. In other cases, we've identified new opportunities that have become more attractive. Lower asset prices will create opportunities to reposition the portfolio for **future success at more conservative valuations**.

Bond yields could still decline near term (the next few months or the rest of the year), but we could see some mean reversion, with yields potentially rising modestly. It would be hard to time, so **we're keeping structural duration in portfolios**. With risk assets selling off recently, we've tapped opportunities to **add to our high-yield corporate exposure**. We still find securitized assets attractive, given their greater insulation from global risks.

Our investment teams will continue to monitor the evolving situation and its impact on client portfolios closely.

The information contained here reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. **Past performance does not guarantee future results.** The views expressed here may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by AllianceBernstein or its affiliates.

**Note to US Mutual Fund Readers:** Investors should consider the investment objectives, risks, charges and expenses of the Fund/Portfolio carefully before investing. For copies of our Prospectus or summary Prospectus, which contain this and other information, visit us online at [www.alliancebernstein.com](http://www.alliancebernstein.com) or contact your AB representative. Please read the Prospectus and/or summary Prospectus carefully before investing. AllianceBernstein Investments, Inc. (ABI) is the distributor of the AB family of mutual funds. ABI is a member of FINRA and is an affiliate of AllianceBernstein L.P., the manager of the funds.

**Note to Readers in Canada:** AllianceBernstein provides its investment-management services in Canada through its affiliates Sanford C. Bernstein & Co., LLC and AllianceBernstein Canada, Inc.

**Note to Readers in Europe:** This information is issued by AllianceBernstein Limited, 50 Berkeley Street, London W1J 8HA, it is for marketing purposes. Registered in England, No. 2551144. AllianceBernstein Limited is authorised and regulated in the UK by the Financial Conduct Authority (FCA) FRN 147956.

**Note to Readers in Japan:** This document has been provided by AllianceBernstein Japan Ltd. AllianceBernstein Japan Ltd. is a registered investment-management company (registration number: Kanto Local Financial Bureau no. 303). It is also a member of the Japan Investment Advisers Association; the Investment Trusts Association, Japan; the Japan Securities Dealers Association; and the Type II Financial Instruments Firms Association. The product/service may not be offered or sold in Japan; this document is not made to solicit investments.

**Note to Readers in Australia and New Zealand:** This document has been issued by AllianceBernstein Australia Limited (ABN 53 095 022 718 and AFSL 230698). Information in this document is intended only for persons who qualify as "wholesale clients," as defined in the Corporations Act 2001 (Cth of Australia) or the Financial Advisers Act 2008 (New Zealand), and should not be construed as advice

**Note to Readers in Hong Kong:** This document is issued in Hong Kong by AllianceBernstein Hong Kong Limited (聯博香港有限公司), a licensed entity regulated by the Hong Kong Securities and Futures Commission. This document has not been reviewed by the Hong Kong Securities and Futures Commission.

**Note to Readers in Singapore:** This document has been issued by AllianceBernstein (Singapore) Ltd. ("ABSL", Company Registration No. 199703364C). ABSL is a holder of a Capital Markets Services Licence issued by the Monetary Authority of Singapore (MAS) to conduct regulated activity in fund management and dealing in securities. AllianceBernstein (Luxembourg) S.à r.l. is the management company of the portfolio and has appointed ABSL as its agent for service of process and as its Singapore representative. This document has not been reviewed by the MAS.

**Note to Readers in Vietnam, the Philippines, Brunei, Thailand, Indonesia, China, Taiwan and India:** This document is provided solely for the informational purposes of institutional investors and is not investment advice, nor is it intended to be an offer or solicitation, and does not pertain to the specific investment objectives, financial situation or particular needs of any person to whom it is sent. This document is not an advertisement and is not intended for public use or additional distribution. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in any of the above countries.

**Note to Readers in Malaysia:** Nothing in this document should be construed as an invitation or offer to subscribe to or purchase any securities, nor is it an offering of fund management services, advice, analysis or a report concerning securities. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in Malaysia. Without prejudice to the generality of the foregoing, AllianceBernstein does not hold a capital markets services license under the Capital Markets & Services Act 2007 of Malaysia, and does not, nor does it purport to, deal in securities, trade in futures contracts, manage funds, offer corporate finance or investment advice, or provide financial planning services in Malaysia.

#### A WORD ABOUT RISK

**Market Risk:** The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value. **Interest-Rate Risk:** As interest rates rise, bond prices fall and vice versa—long-term securities tend to rise and fall more than short-term securities. The values of mortgage-related and asset-backed securities are particularly sensitive to changes in interest rates due to prepayment risk. **Credit Risk:** A bond's credit rating reflects the issuer's ability to make timely payments of interest or principal—the lower the rating, the higher the risk of default. If the issuer's financial strength deteriorates, the issuer's rating may be lowered and the bond's value may decline. **Allocation Risk:** Allocating to different types of assets may have a large impact on returns if one of these asset classes significantly underperforms the others. **Foreign (Non-US) Risk:** Non-US securities may be more volatile because of political, regulatory, market and economic uncertainties associated with such securities. Fluctuations in currency exchange rates may negatively affect the value of the investment or reduce returns. These risks are magnified in emerging or developing markets. **Derivatives Risk:** Investments in derivative instruments such as options, futures, forwards or swaps can be riskier than traditional investments, and may be more volatile, especially in a down market. **Leverage Risk:** Trying to enhance investment returns by borrowing money or using other leverage tools may magnify both gains and losses, resulting in greater volatility. **Below-Investment-Grade Securities Risk:** Investments in fixed-income securities with lower ratings (commonly known as "junk bonds") tend to have a higher probability that an issuer will default or fail to meet its payment obligations.

The [A/B] logo is a registered service mark of AllianceBernstein and AllianceBernstein® is a registered service mark used by permission of the owner, AllianceBernstein L.P.

© 2020 AllianceBernstein L.P.