



Basis Points – February 25, 2020

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Above the Fold

How Politics and COVID-19 Made for an Ugly Monday

Market participants like expected outcomes. Even though no one can predict the future with any certainty, investors like to set probabilities on everything from earnings and economic data to Federal Reserve (the Fed) actions, health care costs and even elections. Analysts will often create several different “cases,” from uber-positive and most probable, to extremely bearish trajectories, which factor in different occurrences and their likely impact on prices. Volatility can spring up if a major bit of news or data dramatically alters these expected trajectories.

Unfortunately for markets, the confluence of two, potentially future-altering occurrences collided yesterday and triggered what was the third largest point selloff, 1,031.33 (-3.56%) in the history of the Dow Jones Index, while the S&P 500 lost -3.35%.

The primary culprit was the growing potential of a COVID-19 pandemic and its global economic impact. The virus now seems less contained as its effects hit Italy and Iran hard, leading to more lockdowns, cancellation of festivals and more. Investors are now displaying increasing concerns that COVID-19's supply effects in China could spread to a deeper, more serious demand problem worldwide.

But before we jump to conclusions, more data will be needed to properly model risks and ramifications. All eyes will be on the PMI (Purchasing Managers Index) data coming out of China later this week in order to quantify impact objectively. Investors are also looking at the timelines and market effects of SARS and MERS, to put potential consequences in perspective. The problem is that each virus has its own unique set of risks and responses that make it hard to model outcomes from one to another.

Adding fuel to the COVID-19 fire was the dramatic rise in poll results for Bernie Sanders. Senator Sanders gained momentum after the Nevada primaries, and seemed to inch ever closer to the democratic nomination. Without making any political assertions, reaction in the markets seem to associate his growing election potential as a challenging outcome that is not priced in. Michael Bloomberg, a more market-positive candidate, is still trailing Sanders, but appears to be closing some of the margin.

For now, it's best to remain calm and keep your discipline. Not much has materially changed in terms of S&P 500 earnings and the COVID-19 risk may prompt the Fed to act quicker and more aggressively than anticipated. That action could help buoy stock prices. Let's hope that outbreak effects are transitory, but election-driven, milder volatility may prove harder to quell unless poll results shift toward a more market-favored candidate like Bloomberg or even Biden. Don't forget that pullbacks are a perfectly normal and healthy part of bullish market cycles, and large, emotionally (and algorithmically) charged movements like what we experienced yesterday, are often followed by more objective rebounds. Westwood will continue to monitor the markets and we will share our insights and perspective.

Three Things

1. *Getting "In-tu-it" With Consumer Finance* – The maker of TurboTax and other financial software is set to purchase private online finance portal Credit Karma Inc. Valued at an estimated \$7 billion, the deal is the largest in Intuit's history and helps push deeper into the lucrative online personal finance sector. Credit Karma will continue to operate on its own under its CEO Kenneth Lin.

2. *Comcast and Fox Look to Increase Their Revenue “Streams”* – As the race to capture cord-cutters heats up, entertainment goliaths look to secure market share using ad-supported streaming services. The Wall Street Journal reported that Fox was in talk to acquire Tubi, while Comcast’s NBCUniversal is reportedly in advanced discussions to purchase Vudu from its current owner, Walmart.
3. *Could Glass Be Mounting a Comeback?* – In the days before plastics’ popularity, many of our favorite food and drink products like milk, ketchup, soft drinks and even beer were packaged in glass. Since plastics can take over 4,000 years to break down and are littering our oceans and landfills, glassmakers are looking to capitalize on environmental awareness and reduce our dependency on single-use plastics. Glass, the highly recyclable material made from silica sand isn’t a panacea, and consumers are likely to push back on anything that removes convenience.

Did You Know?

Capitalizing on Pirating

Beginning in the 1990s, Somali pirates were gaining popularity, guarding local fishing grounds against commercial fishermen from Europe and elsewhere. As time progressed, these Robin Hood-type vigilantes were replaced by opportunists who realized they could rake in millions of dollars by taking control of foreign vessels and their occupants.

Popularized by Hollywood’s Captain Phillips, Somali piracy has now become common knowledge. But what you probably didn’t know was that there’s a [stock market](#) of sorts that allows investors to finance promising pirate gangs in hopes of reaping big rewards. In Haradheere, a busy pirate hangout, pirates pitch their ideas to financiers in an effort to gather as many assets as possible to ensure a successful hijacking. The process is eerily similar to the public relations frenzy executives and underwriters undertake before their stock begins trading publicly.

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