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Economic impact of COVID-19 creates volatility in the market

- **As the world struggles to box in the implications of COVID-19, the probability of a disruptive public health response is rising**
- **Investors are pricing in substantial easing by global central banks to offset tighter conditions in the credit markets**
- **We expect volatility to remain elevated given uncertainty about how to estimate the impact of COVID-19, questions about the effectiveness of policy responses, and moderating economic growth coming into this year.**

Reports of an outbreak of COVID-19 jolted markets, deflating elevated valuations and prompting a "risk off" trade. While policy makers have promised accommodation, we expect continued volatility as many uncertainties remain.

Economic data out of China where the virus emerged gave investors a look at the severe impact of a strong public health response to a new and contagious illness. Some economists are expecting little to no growth for the next two quarters there, reducing global growth expectations. The Organization for Economic Cooperation and Development (OECD) warned that it expected global growth to fall to 2.4 percent (from its earlier estimate of 2.9 percent) in 2020 while a "longer-lasting and more intensive coronavirus outbreak" could halve expected growth to only 1.5 percent. While the US is not among the most vulnerable economies, the margin of error is slim; 2020 growth was projected to be less than 2 percent before factoring in COVID-19. With high corporate leverage and modest growth expectations to begin with, we expect continued volatility and, potentially, higher risk of a recession.

It now appears that it's too late for the virus to be contained. That means that we are likely to see a public health response that will pressure the US economy along with activity in the rest of the world. Measures seen elsewhere include restrictions on travel, regional quarantines, and school and work holidays. The most vulnerable industries include travel and leisure, commodities, capital goods producers, and financial services companies. For now, our base case assumes that the US will experience a manageable slowdown that persists through the first half of the year with a recovery that accelerates through the second half. We remain focused on company fundamentals against a backdrop of more stress than we've seen for some time. Our team is paying particular attention to companies that entered this event with especially high leverage or funding needs. We don't think it's a good time to aggressively take risk, but investors who entered the quarter conservatively positioned may find good opportunities.

While COVID-19 is somewhat of a black swan, it has exposed underlying concerns about the structure and sustainability of supply chains as well as the effectiveness of policy responses. Given tepid global economic momentum at

On March 3, the Federal Reserve (Fed) took the rare action to lower interest rates between scheduled meetings. The Fed's 50 basis point (bp) rate cut was double the normal 25bp step, an action it hadn't taken since the financial crisis. As noted by Chairman Powell, "The spread of the coronavirus has brought new challenges and risks." This action, along with supportive statements from other global central bankers raised confidence that policymakers realize the seriousness of the situation. While the market cheered the move, investors are concerned that disruptive public health restrictions may limit its effectiveness.

the end of last year, investors are concerned that the margin of error is slim for necessary adjustments. Economists are focused on understanding whether policy actions can set the stage for a V-shaped recovery. If the economy isn't poised to "make-up" for deferred demand in a couple of quarters, we are likely to see heightened recession concerns. An uptick in corporate defaults is possible in this scenario, with companies with big funding needs most at risk.

Total S&P 500 Index

	YTD Total Return	Rank
S&P 500	-3.25%	
S&P 500 Utilities Index	5.74%	1
S&P 500 Real Estate Index	2.99%	2
S&P 500 Info Tech Index	1.32%	3
S&P 500 Cons Staples Index	0.06%	4
S&P 500 Health Care Index	-2.34%	5
S&P 500 Comm SVC	-2.67%	6
S&P 500 Cons Discret Index	-3.43%	7
S&P 500 Industrials Index	-6.18%	8
S&P 500 Materials Index	-7.97%	9
S&P 500 Financials Index	-10.25%	10
S&P 500 Energy Index	-23.07%	11

Source: Bloomberg and Securian Asset Management
As of 3/4/2020

All sources are Bloomberg and Securian Asset Management

The S&P 500® Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. Please note an investor cannot invest directly in an index.

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Securian Asset Management, Inc.
securianam.com

400 Robert Street North, St. Paul, MN 55101-2098

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