CETERA® INVESTMENT MANAGEMENT

COMMENTARY

01/27/2020

Global Markets React to Coronavirus

- Global markets drop on the spread of coronavirus
- Selling could continue as investors look for a reason to sell
- Expect volatility to increase on uncertainty

Global markets moved sharply lower on news that the spread of the 2019-nCoV virus, commonly known as coronavirus, is accelerating. While the impact on human life is at the forefront of everyone's concerns, the markets are also reacting to the potential impact on the global economy, particularly in China, which is considered the epicenter of the virus outbreak. In particular, economically sensitive commodities such as oil and copper have fallen in unison with global equities, while safe-haven assets such as Treasuries and gold have rallied. While we will continue to watch the fallout of this virus, we do believe that it may have afforded investors a reason to reduce risk, something that has been missing for some time.

According to the Centers for Disease Control and Prevention (CDC), coronaviruses are a large family of viruses that can cause respiratory illnesses such as the common cold. These viruses are common amongst animals worldwide, but only a handful of them are known to affect humans. Although rare, coronaviruses can evolve and spread from animals to humans. This is what happened in the past with the coronaviruses known as the Middle East respiratory syndrome (MERS) and the severe acute respiratory syndrome (SARS). The first cases of the new coronavirus were reported on December 31, 2019. As of today, according to the New York Times, there are more than 2,700 confirmed cases and over 80 deaths.

While the death toll is upsetting and, according to the Washington Post, there are signs that the virus is adapting to humans faster than the SARS virus took, equity markets are lower as investors grapple with the potential global economic impact. The coronavirus outbreak has taken place during the all-important Lunar New Year, which is China's most important public holiday. Unfortunately, a travel ban in China covering 50 million people and over 16 cities has limited travel and gatherings and impacted spending in the world's second-largest economy. For example, some Chinese retailers have noted a 50% decline in store traffic. This potential decline in spending, along with measures that the Chinese government has taken to help reduce the spread of the virus, could potentially impact the country's growth by 1%. This impact on growth is disconcerting as China remains in a delicate spot because of the impact of the U.S.-China trade dispute. Investors could be using the coronavirus news as a reason to take profits.

Although markets are down today, we do not know how long the selling could persist. Looking at the market impact of the SARS virus in 2003, which is considered the most similar to the current coronavirus, you can see in the table below that equities sold off in the first month after China first reported SARS to the World Health Organization and the media. However, by three and six months later, markets had more than recovered. Keep in mind that these results should be taken with a grain of salt as the economy was just recovering from a recession in 2001.

Index	1 Month	3 Months	6 Months
MSCI ACWI	-4.35	11.55	19.58
MSCI EAFE	-5.41	10.56	19.79
MSCI Emerging Markets	-3.83	8.70	27.51
S&P 500	-4.03	12.18	18.37

Source: Cetera Investment Management, Morningstar, MSCI, Standard & Poor's. Returns shown are total return, which include dividends. The starting point of the data is 2/11/2003.

Scientists are still working to understand the effects of the coronavirus. While we do not know how this virus will play out, we do expect, as new information emerges and concerns increase, market volatility to increase as it has been extremely low for several months. It has been 69 trading days since we last saw the S&P 500 move higher or lower by at least 1% (an occurrence that historically takes place one out of every four trading days). In periods of increased volatility, being diversified with a long-term plan is still the best hedge against uncertainty and unease. Your Cetera financial professional can help you ensure your plan, financial objectives, and life circumstances are in alignment and help you, no matter what happens around you, chart a clear path for the future.

This report is created by Cetera Investment Management LLC

About Cetera® Investment Management

Cetera Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Cetera Investment Management provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

About Cetera Financial Group®

Cetera Financial Group ("Cetera") is a leading network of independent firms empowering the delivery of professional financial advice to individuals, families and company retirement plans across the country through trusted financial advisors and financial institutions. Cetera is the second-largest independent financial advisor network in the nation by number of advisors, as well as a leading provider of retail services to the investment programs of banks and credit unions.

Through its multiple distinct firms, Cetera offers independent and institutions-based advisors the benefits of a large, established broker-dealer and registered investment adviser, while serving advisors and institutions in a way that is customized to their needs and aspirations. Advisor support resources offered through Cetera include award-winning wealth management and advisory platforms, comprehensive broker-dealer and registered investment adviser services, practice management support and innovative technology. For more information, visit cetera.com.

"Cetera Financial Group" refers to the network of independent retail firms encompassing, among others, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), Cetera Financial Specialists LLC, and First Allied Securities, Inc. All firms are members FINRA/SIPC.

Disclosures

The material contained in this document was authored by and is the property of Cetera Investment Management LLC. Cetera Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Cetera Investment Management and did not take part in the creation of this material. He or she may not be able to offer Cetera Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Cetera Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Cetera Investment Management, please reference the Cetera Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

Glossary

The **S&P 500 is an index** of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe

The **MSCI All-Country World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The SMCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The **MSCI EAFE** is designed to measure large and mid cap equity market performance of 21 developed markets, including three regions (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted, covering 85% of the free float-adjusted market cap in each of the 21 countries.

MSCI Emerging Markets is designed to measure large and mid cap equity market performance in global emerging markets. The Index is market-capitalization weighted, covering 85% of the free float-adjusted market cap in each of 24 countries.