

## Coronavirus Outbreak Disrupts Steady Market Gains

After a strong start to 2020 that lifted nearly all major U.S. equity indices to record highs through late January, the rapidly spreading coronavirus originating in China provoked fears of significant economic damage that have nearly erased all of January's market gains. Before the shock to the market, the S&P 500 had notched record highs during one its longest streaks without a 1% daily move in the past five decades, highlighting strong investor comfort and expectations.

Concerns over coronavirus broke the streak and are increasingly affecting global equities. The World Health Organization (WHO) declared a Public Health Emergency of International Concern on Thursday, January 30th. At the time, the coronavirus had sickened more than 9,500 people and killed 213. Notably, while WHO's move highlighted the risk of a potential global outbreak, the organization stopped short of recommending restrictions on travel or trade.

Historically, markets often react quickly and sharply to threats of this nature as investors frequently theorize and assume potentially devastating consequences that rarely actually materialize. Currently, the most likely outcome, beyond the obvious human element, is a temporary hit to Chinese and global GDP, rather than a larger impact that seriously impacts global growth.

Chinese New Year always dramatically lowers manufacturing output as the country largely shuts down for around two weeks. This year, the spread of the virus is occurring over the holiday which started on January 25th and runs through around February 8th.

Fears of the virus are expected to cause more factory shutdowns that could last much longer, likely disrupting supply chains much more than normal. China now represents



Daniel Wildermuth  
CEO of Wildermuth Advisory, LLC

*...the current lockdown on transportation and factory activity is already larger than the SARS reaction, floods in Thailand or the earthquake in Japan.*

more than twice the share of global merchandise exports that it did in 2003, when the SARS virus hit. By comparison, the current lockdown on transportation and factory activity is already larger than the SARS reaction, floods in Thailand or the earthquakes in Japan. The interconnected nature of advanced global supply chains appears likely to challenge global manufacturers differently than any past event, and with the shutdowns just beginning, the impact is difficult to forecast.

Beyond China, markets already seemed somewhat fragile. While U.S. stocks had moved sharply up through late January on increasing growth expectations, Barrons reported that analysts predicted corporate earnings would not keep pace. Rather than increasing, net income for the aggregate S&P 500 was projected to fall 2.6% in the fourth quarter<sup>i</sup>.

Factset's projections are a bit more optimistic with expectations for blended S&P 500 earnings in fourth quarter only declining 2.1%. Still, even using the more optimistic 2.1% decline, the index will have reported four straight quarters of year-over-year earnings declines, the first time since Q3 2015 through Q2 2016<sup>ii</sup>.

Furthermore, the International Monetary Fund (IMF) forecasts American U.S. growth of just 2.0% in 2020, down from 2.3% in 2019. Similarly, the IMF expects China's growth to slide down to 6.0% in 2020 from 6.1% in 2019. Notably, the China forecast improved after the recent trade deal, but the IMF's projection also preceded the coronavirus outbreak, which could obviously dent these numbers.

In both cases, the IMF's slower growth predictions go beyond the trade war. For the U.S., the impact of the tax overhaul has already been absorbed and China's economy is maturing while its population ages, and debt financing of large infrastructure projects diminishes. For the U.S., the numbers are certainly not disastrous, but appear inconsistent with general expectations of increasing growth in 2020.

Globally, however, numbers look better. The IMF, World Bank and various other economists predict a modest global economy rebound in 2020 following a year

<sup>i</sup> <https://www.barrons.com/articles/sp-500-earnings-fourth-quarter-preview-51578940749>

<sup>ii</sup> [https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight\\_011720.pdf](https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_011720.pdf)

*Continued ...*

# MARKET COMMENTARY

February, 2020



that notched the weakest growth since the financial crises.

Both France and Italy saw economic output shrink in the fourth quarter, and Germany struggled with its weakest growth since 2013 as exports faltered. Expectations for 2020 are higher and the U.K. economy, which slowed in 2019 during Brexit uncertainty, is expected to rebound.

Beyond developed Europe, growth forecasts are notably better for various large emerging markets including Brazil, India, Mexico, and Russia. All are expected to enjoy accelerated growth in 2020 of about a full percentage point<sup>iii</sup>.

Looking longer term, one can argue either that stocks are approaching valuations last seen during the height of the dot-com bubble in 2000, or that they are reasonably priced. According to FactsSet, the current price-to-earnings ratio sits around 18.5, well above both the 5-year average of 16.7 and the 10-year average of 14.9. The PE 10 ratio, which uses the average inflation-adjusted earnings from the previous 10 years, sits near its highest levels ever recorded, surpassed only by the peaks of 1999 and 1929. Similarly, the price-to-sales ratio is at its highest level since the 2000 dot-com bubble.

Yet, stocks look much more attractive when compared to the bond market. Because bonds are the primary alternative to stocks, and yields on risk-free U.S. government remain at historically low levels, the common comparison of the S&P 500 dividend yield to that of the 10-year treasury note suggest stocks are appealing. Currently, the S&P 500 dividend yield is virtually identical to that of the 10-year U.S. Treasury note, while historically stocks yield roughly 20% less than risk-free bonds. By this measure, stocks could be argued to be underpriced.

Many other economic gauges also remain solid including a long list of indicators such as unemployment, labor force participation,

growth in average hourly earnings, productivity growth, retail spending, home sales, housing starts, consumer sentiment, household debt, outstanding consumer credit, and loan delinquency rates. While there is weakness in some notable areas such as business investment, most indicators suggest the economy remains on stable footing.

Overall, the picture seems to reveal a stable U.S. economy moving positively forward, but also circumstances that are unlikely to deliver investor growth expectations. The recent pullback in stocks triggered by coronavirus leaves a market that is slightly less expensive, but also presents a fresh and highly unpredictable challenge to both U.S. and global economies. While the market could quickly recover with a rapid fade of coronavirus, and ongoing growth expectations could propel equities forward, we still remain unenthusiastically neutral in the short-term about U.S. equities and less positive in the medium term given current market valuations versus our economic growth expectations. Conversely, international markets may offer more attractive opportunities given their generally much more attractive valuations relative to growth expectations.

**Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. This and other important information is contained within the Fund's Prospectus, which can be obtained by calling (888) 889-8981 or by visiting the Fund website [www.wildermuthendowmentfund.com](http://www.wildermuthendowmentfund.com). The Fund's Prospectus should be read carefully before investing.**

Wildermuth Advisory, LLC is an SEC-Registered Investment Adviser that advises the Wildermuth Endowment Fund. Investing in the Fund involves risk, including those summarized below. An investment in the Fund is generally subject to market risk, including the loss of the entire principal amount invested.

The value of your investment in the Fund at any point in time may be worth less than the value of your original investment, even after taking into account any reinvestment of dividends and distributions.

You should consider the shares to be an illiquid investment. Even though the Fund will make periodic repurchase offers to repurchase a portion of the shares to provide some liquidity to shareholders, only a limited number of shares will be eligible for repurchase by us. You should carefully consider that you may not have immediate access to the money you invest for an indefinite period of time. An investment in our shares is not suitable for you if you need immediate access to the money you invest. Certain investments in the Fund are illiquid making it difficult to sell these securities and possibly requiring the Fund to sell at an unfavorable time or price. The value of certain Fund investments, in particular non-traded investment vehicles, will be difficult to determine and the valuations provided will likely vary from the amounts the Fund would receive upon sale or disposition of its investments.

Wildermuth Endowment Fund's principal underwriters and co-distributors are:  
Wildermuth Securities, LLC  
818 A1A Highway, Suite 301, Ponte Vedra Beach FL 32082 and UMB Distribution Services, LLC, 235 W Galena St, Milwaukee, WI 53212

<sup>iii</sup> <https://www.wsj.com/articles/european-stocks-rally-on-optimism-about-economy-11579860717>

*The opinions in the preceding commentary are as of the date of publication and are subject to change. Information has been obtained from third-party sources we consider reliable, but we do not guarantee that the facts cited are accurate or complete. References to specific securities for which UMB Distribution Services, LLC is not the distributor should not be construed as recommendations by the Funds, the Advisor or the Distributor.*