Commentary on Recent Market Events

February 26, 2020

The outbreak of the Coronavirus has rattled people around the world and is now impacting investment markets in the US and abroad. While the full impact of the virus is still too early to define, we would like to address the volatility of the markets and actions we are taking to manage risk in client portfolios.

As we noted in our year-end newsletter, markets finished 2019 near all-time highs and at valuation levels that were elevated relative to long-term averages. High valuations make markets susceptible to bad news and exposed to pullbacks, so we had already been gradually taking gains in equities as the stock market rose and rebalancing portfolios in anticipation of a correction. Unfortunately, the Coronavirus has provided the catalyst for the correction we were concerned might unfold. Historically, health outbreaks such as this one have not negatively impacted markets over the long term. This has prompted many investors to think that immediately buying into this market weakness will pay off profitably. We are not yet in this camp and are not yet actively buying into the decline, as we believe more information is required before adding capital to equities.

First, it is important to understand the human health risk the virus poses to the population of the world and possible approaches to managing the outbreak. This is a medical issue and we look to organizations such as the World Health Organization and US Center for Disease Control for data relating to the virus' impact and potential containment. The timing associated with the progression and magnitude of the outbreak will have a significant impact on economies, industries and companies. Importantly, our asset allocation strategy is already tilted towards large US companies that should prove relatively resilient as policy responses are developed and implemented.

Next, confidence needs to be restored, or at least improved. The full impact on consumer and corporate travel and associated spending is not yet known. Supply chains that are interrupted may impact businesses in ways that investors have yet to price in. Companies trading at seemingly attractive valuations may not fully discount demand destruction or supply interruption. As discussed in newsletters over the past year, our increasing bias towards high-quality companies should help address this issue as company-specific implications become clear.

Finally, once more is definitively known, we expect to be able to take advantage of opportunities to invest in companies with strong balance sheets and cash flow that can withstand the economic upheaval caused by the virus. For the moment we are targeting slightly lower overall equity exposure, mindful that downside risks have increased as the virus has spread outside of China. We continue to look positively on equity investments longer term, however, as the world and US economies get back on firmer ground. We recognize that near term there is likely to be pressure on equity markets until the factors noted above come into clearer view. Rest assured that we are watching closely and will adjust our current cautious stance as the situation evolves.

The F.L.Putnam Investment Management and Advisory Team

Investment Management and Advisory Team

	Years of Investment Industry Experience	With F.L.Putnam Since
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Keith Elflein, *Portfolio Manager, Director of Quantitative Strategies* | Wellesley MA MBA Finance, University of Rhode Island BS Chemical Engineering, Case Western Reserve University Naval Nuclear Engineering School	13	2018
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As of December 31, 2019