

H. Terrence Riley III, CFA
March 4, 2020

Contact: Karin Mueller-Paris
+1(212) 326 9533 kmm@fvc.com

S&P 500, price 3085 as of 1:06pm, 4 March 2020



The Corona Virus Creates a Buying Opportunity

The S&P 500 is currently trading at 10% below the closing high of 3386 on 19 February and near term risks remain high. The markets had largely ignored Covid-19 while it was mostly contained to China and the S&P was still at 3337 on 21 February. However, Italy, which had only 3 cases a couple days earlier, suddenly reported a jump to 152 cases on 23 February. This rapid jump shocked the markets and equity prices started a sharp adjustment because of the apparent likelihood that the virus will spread widely in the West, which we think remains a substantial risk. The probability that a supply-side shock could cause a decline in production and earnings in the near term is a substantial reality. Some estimates now suggest that the Chinese economy could contract as much as 10% in the current quarter. A contraction in the Western industrialized nations is also a real short-term risk.

A year from now we suspect that the crisis will have passed. It is the suddenness of the rise in cases in the West that has truly caused the shock to confidence. Nonetheless, we need to keep in mind a few things. The virus has been referred to as the “novel” corona virus, but the world has faced pandemics before, including the “Asian Flu” of 1957-58 which killed 2 million worldwide and the “Hong Kong Flu” which killed a million people in 1968-69. Second, the health systems of Western nations are better capable of dealing with this virus than China. Third, there are already tests underway for treatments including Gilead Sciences Remdesivir, which was originally developed to treat the coronavirus that causes Middle East respiratory syndrome (MERS). Remdesivir has been found to have significant activity

against Covid-19. Fourth, a massive effort is now underway to develop a vaccine and one is expected to be ready within a year. Fifth, some respite is possible as we now move into the spring season in the Northern Hemisphere. Virus' live longer and are more easily transmitted in colder, drier air, which is why people typically get colds in January and not July.

We think it is prudent to now begin to buy stocks. Because the level of uncertainty remains high, volatility is going to remain high. Therefore we think a conservative approach is to add to equity positions gradually over the next month or two. We cannot know when equity prices will make their lows, but factors other than the economic effects of the virus remain positive and the markets are still likely to remain in what we believe may be a 20 or more year secular bull market that began in 2009. History tells us that when we look back from a year from now, conditions will have normalized and we will recognize this crisis, while a tragedy for many people, was also an opportunity for allocating capital to equities. Panic often creates opportunity.

The information contained in this report is intended solely for the clients of F&V Capital Management, LLC in the United States, and may not be used or relied upon by any other person for any purpose. Such information is provided for informational purposes only and does not constitute a solicitation to buy or an offer to sell any securities under the Securities Act of 1933, as amended, or under any other U.S. federal or state securities laws, rules or regulations. Investments in securities discussed herein may be unsuitable for investors, depending on their specific investment objectives, risk tolerance and financial position.

The information is obtained from specified sources and is believed to be reliable, but that accuracy is not guaranteed. Any opinions contained herein reflect F&V's judgment as of the original date of publication, without regard to the date on which you may receive such information, and are subject to change without notice. F&V may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.