

Latest Thoughts on Market Turmoil

Holly MacDonald

Chief Investment Officer

As volatility in global financial markets continues to escalate, we want to provide our latest thinking on investment implications related to the COVID-19 coronavirus and a sharp decline in oil prices. Our sympathies continue to be with everyone affected by the virus.

- Coronavirus poses a significant threat to near-term economic activity. While new cases in China have moderated, the spread of the virus appears strongest in Iran, South Korea, and Italy — and the U.S. is seeing an increase in reported cases. GDP figures around the world will fall far short of prior estimates for the first quarter, and the downturn could last longer depending on global progress in limiting the spread of the virus.
- After OPEC+ (Organization of the Petroleum Exporting Countries and allies including Russia) talks collapsed, Saudi Arabia decided to cut oil prices and boost output despite existing threats to oil demand from the coronavirus epidemic. This decision surprised markets, as investors were largely expecting an agreement regarding additional supply cuts. An oil price war could have significant geopolitical and investment implications. We note that over the past year, Bessemer equity portfolios have benefitted from an underweight to the energy sector, which itself has also become a smaller percentage of the market. The energy sector represents under 4% of the S&P 500 currently, down from over 25% in 1986.
- Recent stock-price declines have been substantial; the S&P 500 is down roughly 18% from peak-to-trough as we write this. To put this in context, during the bull market of the last decade, stocks fell by significant amounts four times — including drops of about 20% in 2011 and 2018. Markets are likely to remain volatile in

the coming weeks as investors factor in oil price movements and new data comes out on the pace of virus contagion and fatality rates. Any positive news could lead to sharp market recoveries in light of favorable fundamentals in corporate earnings, inflation, and employment at the onset of this shock.

- Corporate funding is an area of particular focus for us. In prior sell-offs, marked tightening in credit markets has intensified the downdrafts and hurt economic activity. More important than rate cuts, the message from central bankers — that they are focused on ensuring well-functioning markets — can help steady sentiment. The Federal Reserve has already increased liquidity assistance to markets in the form of higher overnight repurchase levels this morning. In addition to our focus on credit markets, we are closely monitoring jobless claims, small business optimism, and consumer sentiment to gauge the potential for lasting impact from the virus on economic activity.
- Defensive aspects of the portfolio are providing a level of protection. Bond portfolios are benefiting significantly from rising demand for fixed-income securities, most of our equity portfolios are beating benchmarks year-to-date (though remain negative), and managed volatility sleeves in large and small/mid-cap portfolios are outperforming equity indexes. Within our alternative investment programs, hedge fund vehicles appear to be performing as intended, and private equity exposures are oriented toward technology and healthcare sectors, which are less likely to be affected by coronavirus on a relative basis.
- Finally, our ongoing preparation for disruptive events means that our entire investment team is equipped to work remotely as needed. We are

monitoring events closely to make appropriate decisions to keep employees safe and provide the ongoing investment management that our clients rely on. Fortunately, we can conduct our daily activities from anywhere.

For more information on the recent market turmoil, we encourage you to read our February 28

Investment Insights, “Taking a Long-Term View During Volatile Times,” and our February 25 *Investment Insights*, “Portfolio Positioning Amid Recent Market Moves.”

We continue to wish you and your family safety and good health. Please reach out to your Bessemer team for any support you may need.

Recent Insights

Taking a Long-Term View During Volatile Times — Investment Insights (February 28, 2020)

Portfolio Positioning Amid Recent Market Moves — Investment Insights (February 25, 2020)

Turning Trends in 2020 — Quarterly Investment Perspective (First Quarter 2020)

Issues in the Repo Market, Explained — Investment Insights (November 2019)

Getting Invested — Investment Insights (October 2019)

Japanification Investing — Quarterly Investment Perspective (Fourth Quarter 2019)

Inflation Checkpoint: A Deep Dive Into Healthcare Services Inflation — Investment Insights (September 2019)

Japanese Equities: Progress Underway, but Challenges Remain — Investment Insights (September 2019)

To view these and other recent insights, please visit www.bessemer.com.

About Bessemer Trust

Privately owned and independent, Bessemer Trust is a multifamily office that has served individuals and families of substantial wealth for more than 110 years. Through comprehensive investment management, wealth planning, and family office services, we help clients achieve peace of mind for generations.

This material is for your general information. It does not take into account the particular investment objectives, financial situation, nor needs of individual clients. This material is based upon information obtained from various sources that Bessemer Trust believes to be reliable, but Bessemer makes no representation or warranty with respect to the accuracy or completeness of such information. Views expressed herein are current only as of the date indicated, and are subject to change without notice. Forecasts may not be realized due to a variety of factors, including changes in economic growth, corporate profitability, geopolitical conditions, and inflation. Bessemer Trust or its clients may have investments in the securities discussed herein, and this material does not constitute an investment recommendation by Bessemer Trust or an offering of such securities, and our view of these holdings may change at any time based on stock price movements, new research conclusions, or changes in risk preference.

ATLANTA • BOSTON • CHICAGO • DALLAS • DENVER • GRAND CAYMAN • GREENWICH
HOUSTON • LOS ANGELES • MIAMI • NAPLES • NEW YORK • PALM BEACH • SAN FRANCISCO
SEATTLE • STUART • WASHINGTON, D.C. • WILMINGTON • WOODBRIDGE

Visit us at bessemer.com