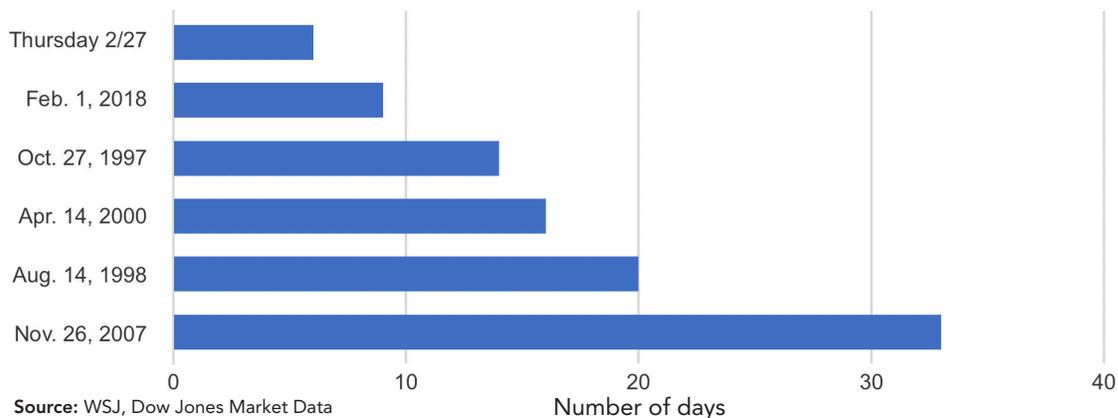


# Unrest in the Markets

**T**he past several days have seen unrest in the news and financial markets. Stocks, bond yields, and oil prices abruptly tumbled, reversing gains thus far in 2020.

The sudden ‘risk off’ sentiment has put stock market indices on track to close 10% below their February highs, a decline known as a correction, only a week or two after setting new all-time high records. As you can see in the chart below, the late February swing has been the swiftest 10% correction following an all-time high when looking back over several decades.

**Fastest 10% declines from an all-time high in the S&P 500** (Since 1995)



**Markets are now reacting to the jump in Coronavirus cases outside of China** — mostly in S. Korea, Italy, and Japan — and to the 700 people infected on the Diamond Princess ship (out of 3700 total crew/passengers).

The gyrations in financial markets reflect a growing concern about the potential negative economic impact of the virus permeating more broadly throughout the global economy. In today’s interconnected global marketplace, businesses here at home can be adversely impacted by supply chain slowdowns and reliance on production for key goods in China and overseas in the Asia-Pacific region. Some US companies say they could see a significant drop in their revenues derived from China if the coronavirus epidemic extends through the summer.

[ continued... ]



Special Commentary continued ...

To put that in context, roughly 11% of the revenue for the S&P 500 index of large US companies is derived from business exposure to mainland China and the Asia-Pacific region. Smaller companies (small-cap stocks) tend to be more domestic facing in their business operations and revenues, and generally are less sensitive to economic developments overseas.

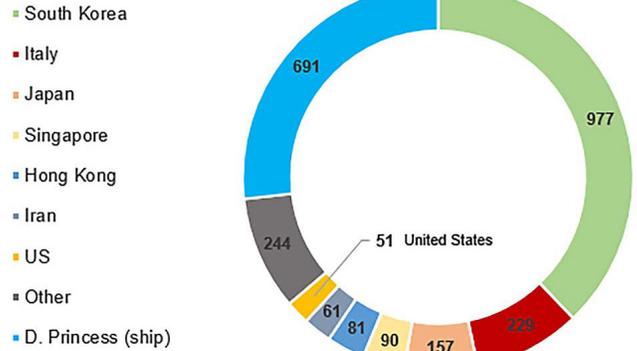
Amid the recent apprehension and drop in equity markets throughout the world, there has been a flight toward the safety of government-bond holdings. The yield on the benchmark 10-year U.S. Treasury, which closed at a record 1.310% on Wednesday, dropped to 1.271% Thursday (bond prices increase when the yield level decreases).

**What should you be doing?**

While the recent news has put a damper on the stock market along with some weakened measures of economic activity, at this moment we don't expect a deep bear market or US recession. Household finance and consumer confidence remain strong, inflation is stable, and the overall employment situation is sturdy. The jobless rate in the US remains near a 50-year low. Within the US economy, many indicators still point to a clean bill of health.

Market selloffs are a normal part of investing, and are not an unusual occurrence. In fact, we experience intermittent bumps and declines each and every year. As you can see, a normal market sell-off intra-year doesn't necessarily mean worse is yet to come, or a down year in the markets. [ continued... ]

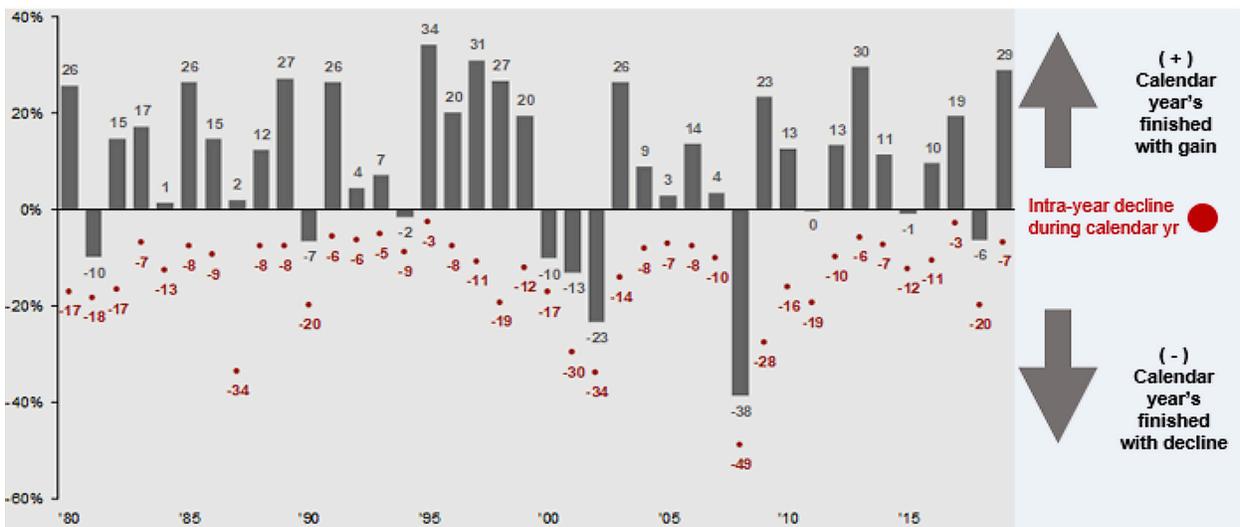
**Coronavirus confirmed cases outside of China**



Source: JP Morgan, World Health Organization, as of 2/25/2020

**S&P 500 Intra-Year Declines vs. Calendar Year Returns**

Despite average intra-year drops -13.8%, annual returns ended up positive in 30 of 40 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management



*Special Commentary conclusion ...*

**We will continue to monitor the developments** as it pertains to the economic landscape and within investment portfolios. We encourage you to stay the course. Our comprehensive financial planning and diversified investing process at Klaas Financial aims to instill discipline for your long-term success. We generally steer clear of impulses to ‘buy the dip’ or ‘run for the exits’ amid corrections, recognizing they are a normal part of the ebb and flow to financial markets and investing.

As the year unfolds, we feel US election risk might come more into focus, and it is possible we could be in for a bumpy ride given the range of outcomes associated with the election candidates economic, fiscal, and tax policy.

If you do have any questions or concerns that you would like to discuss, please do not hesitate to reach out and get in touch with your advisor. We appreciate the trust and confidence you have placed in our team and organization to help you both plan and invest for your future. 

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