

Market Update

March 27, 2020

At the end of another extraordinary week in the financial markets, I hope this update will be of interest.

Following weeks of market declines, three dramatically positive days have narrowed the market drop to 22.5% from the February 19th high, as of last night's close. For context, at the end of last week, the S&P 500 had dropped 32.1%. Part of this rebound is due to a very proactive response by the Federal Reserve in creating an "alphabet soup" of lending facilities to improve liquidity in the financial system and act as a backstop for money markets, commercial paper, municipal bonds, corporate bonds, the US Treasury market, and so forth (a few of the acronyms are MMLF, CPFF, PDCF, PMCCF, SMCCF – you get the idea). This morning we are awaiting passage of the CARES Act which will provide fiscal stimulus that equates to nearly 10% of US GDP. The speed and magnitude of the policy response is staggering and likely is a result of lessons learned by policy makers during the 2007-2008 financial crisis.

This week has offered a welcome respite from the declines of the last month, although we expect the sharp moves in the markets, both up and down, to continue until the public health crisis wanes, through containment and treatment. Drug makers around the world are working 24/7 to come up with a vaccine and other potential solutions, ranging from preclinical to phase-3 trials. A peak in new infection rates outside of China would be a good start for economic and market recovery, but we also will need a clearer picture of future earnings than companies are willing, or able, to provide at this time.

In the meantime, employment numbers have turned ugly and forthcoming economic data will look terrible. We do want to point out some slightly encouraging signs beneath the daily market headlines. The indiscriminate selling of almost any asset that has taken place in the last two weeks has abated, and the sharp rise in equity correlations has started to drop. When equity correlations are at extremely high levels, it means that stocks are being sold to a degree that has no bearing on how much or how little the underlying business will be impacted by our current economic situation. Likewise, the number of stocks making new 52-week lows also has started to decline. This is a positive sign and similar to what happened as the market was in the process of bottoming in the 2007-2008 financial crisis.

As in the post-9/11 world, there will be changes in our everyday lives, as well as in the investment landscape, to a degree that will be determined by the course of the virus. What we do know is that the environment will continue to be one of low interest rates, low inflation and low levels of global growth, and our investments will reflect that economic backdrop.

On more than one occasion over the past several weeks, I have thought of a quote by the boxer, Mike Tyson, who famously said, "everyone has a plan until they get punched in the mouth". Despite all of the planning we do for our clients and in our own lives, we have just gotten the economic equivalent of a punch in the mouth. However, the next step is to fall back on what your plan is and the reasons it exists in the first place. For short-term needs, liquidity is important. Assuming a longer-term time horizon to capture a full market cycle, a portfolio of high-quality equities can provide growth, income in many cases and even growth of income. The cost of owning equities is their volatility and the fact that there are periods of time where it can be challenging to be an equity investor. Bonds in a portfolio serve the purpose of providing income and reducing risk. However, the trade-offs are that bond income is fixed, and the return potential over the long-run is quite low.

Finally, the virus statistics that now have become a part of our daily lives can make it easy to lose sight of the actual people behind the data. My thoughts go out to my own family and friends who currently have the virus and I truly hope that you and your loved ones remain healthy and safe.

With warmest regards,

A handwritten signature in black ink that reads "Julie". The signature is written in a cursive, flowing style.

On an administrative note, my colleague, Warwick Carter, has provided this link to a chart that details tax filing and payment guidance that has been issued by the various states to date.

<https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/coronavirus-state-filing-relief.pdf>