FORESTVIEW
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April 9, 2020

Q1 2020 Review Letter

After a tremendous 2019 for the stock market, 2020 began with increased military tensions with Iran which, unfortunately, culminated in a Ukrainian International Airlines passenger flight being accidentally shot down by the Iranian military. We saw protests escalate in Hong Kong whose citizens pushed back against mainland China's oppressive reach. We saw the yield curve in U.S. Treasury bonds begin to steepen during 4th quarter of 2019, only to see it invert again at the end of January. The shining star of hope was the Phase I trade deal with China being signed on January 15th, giving investors a jolt of optimism for trade to open up considerably. (Remember when the trade war was the biggest worry on the minds of investors? Man, I wish we could go back to those types of worries!)

Coming into the new year, analysts were predicting year-over-year growth of 1.8% in GDP, with the odds of a recession declining substantially due to 50-year low unemployment, subdued inflation, and robust consumer spending. Estimated year-over-year earnings growth for S&P 500 companies were between 5-6%. January marked the 128th month of the longest economic expansion in U.S. history, and then this all changed within a few weeks when it became apparent that a large part of the U.S. economy was going to shut down due to the Coronavirus starting to spread quickly across America.

The stock market peaked on February 19th and then it only took 5 daily sessions to decline almost 12%, sparked by an outbreak of the virus outside of China. This was the fastest market correction (defined as a decline of at least 10%) in the history of the stock market. On 2/21 the World Health Organization issued worried statements about a global pandemic.

For the rest of February, the market seemed like it had found a bottom and wanted to recover. The virus was still seemingly contained in the U.S. with only a couple hundred cases – most of which were people who had travelled from hotspot areas like China or a cruise ship that had an outbreak. On March 3rd, the Federal Reserve lowered short-term interest rates by 0.50% in order to support the economy. Also, on March 6th the U.S. Congress passed H.R. 6074 – the Coronavirus Preparedness and Response Supplemental Appropriations Act, which provides $8.3 billion to combat the virus. Optimism was returning.

However, that optimism quickly soured over that weekend of March 7-8. During a meeting of OPEC countries that was supposed to put a floor under the recent price decline in Oil (due to the decline in demand caused from the virus outbreak), Russia decided to blow up a three-year-old pact to manage global supplies, refusing to sign on to Saudi Arabia's proposed cuts in production. This precipitated an overnight decline in the price of oil the likes of which we've not seen since the Gulf War of 1991.

Worried about what the price decline in oil would do to oil producers globally, and especially here in the U.S. (remember that the U.S. is now the largest producer of oil in the world), and the trickle-down effects to the rest of the economy, the stock market opened the next day (Monday 3/9) down -7% immediately triggering the "circuit breakers" which halts all trading on the major exchanges for 15 minutes. The day ended down -7.6% on the S&P 500 index.

What then transpired over the next two weeks was nothing short of a mind-bending blur of events with the amount of news-flow coming at us like a firehose: The WHO declared the virus an official pandemic; professional sports leagues canceled their seasons; and the majority of U.S. states' Governors issued shelter-in-place orders which started with California on March 19th.

The market responded with a tremendous increase in volatility – mostly to the downside, where the average daily move on the markets (up or down) increased to almost 5% with several days moving 9% or more. Key dates include March 12th – the official end of the longest bull market in history, which began on March 9, 2009. The market declined -9.5% this day taking the full decline from the 2/19 peak to -26%, the fastest decline to a "bear market" in history. On March 16th the stock market circuit breakers tripped twice, ending the day down 12% - the worst one-day decline since "Black Monday" October 19, 1987. March 18th saw the Dow Jones Industrial Average drop over 9%, which erased all of the gains that that index had made since before President Trump took office.

We also saw a tremendous amount of Monetary and Fiscal stimulus response to the crisis. On the monetary front, we saw central banks around the world cut interest rates and pledged to spend whatever was necessary to protect the economy. Here in the U.S. the Federal Reserve Board held an emergency meeting on Sunday March 15th where they effectively cut short-term interest rates down to zero, and announced a restart to their bond buying activities injecting $700 billion of liquidity into the financial system; and then again on March 23rd announcing an expansion of that to unlimited amounts of bond buying – buying U.S. Treasuries, Mortgage-backed securities, and even certain high-yield bonds.

On the fiscal front, we saw the U.S. Congress come together in largely bipartisan fashion (except for a couple speedbumps) to pass two more major bills: H.R. 6201 (Families First Coronavirus Response Act) which provides $105 billion to expand testing and to bolster the state Medicaid funds. It also expanded laws around FMLA and employee family sick leave; and then the massive $2 trillion CARES Act (H.R. 748 Coronavirus Aid, Relief, and Economic Security) passed on March 27th, which includes issuing checks directly to Americans as well as providing loans and loan guarantees to small businesses. To put this one in perspective, Congress earmarked $800 billion for the Economic Stimulus Act of 2008 during the financial crisis. The IRS is even trying to help by extending the deadline to file tax returns and pay any outstanding 2019 balances, and 2020 Q1 estimated taxes to July 15th.

The stock market "bottomed" (as of now) on March 23rd. On that day the S&P 500 was down almost 34% from the 2/19 peak, and the Dow was down almost 37%. Since then, the market has rebounded nicely posting a 25% increase through April 9th - the day I'm putting the finishing touches on this letter. This puts the market at the 50% retracement level – effectively erasing half of the loss. Many market analysts believe that this is a "bear-market rally", which means that it won't last. There is historical evidence they point to which provides a good argument that stocks may re-test the March 23 lows, and possibly even go lower, before finding the "real" bottom that begins the "real" recovery. They may be right, or they may be wrong. I think the recent monetary and fiscal stimulus could have very well have put a major support line in for the market, but only time will tell.

What we do know is that we will eventually get through this. We always do. The market will bottom and then recover – in massive fashion. Looking at the past 12 bear markets that are worse than the one we're going through, we find that, on average, the stock market is up 52% after 1-year of a market bottom, up 88% after 3 years, and up 132% after 5 years.

Keeping a long-term perspective and having patience is the key to getting through this. I am here to support you – we are in this together. Please contact me with any concerns or questions you may have.

Sincerely yours,

Matt Stewart