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Market, Virus and Economic Update

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Market Update:

The S&P500 gained another 3 ½ percent this week, with plenty of volatility along the way and a strong finish on Friday. Continued volatility is to be expected and is likely to continue through September. Market behavior is about forecasting and expectations, as we've explained. It appears that the market had already "priced in", the week's terrible economic news.

On January 2nd the S&P500 closed at 3257.85. On March 23rd, the S&P500 closed at 2337.40. The drop of 920.45, or 28.25%, took place during just 55 trading days. More astounding, the S&P500 fell 1148.75 points, or 34%, in the 23 trading days from an all-time high of 3386.15 on February 19th to the March 23rd low. We communicated along the way that we would not sell into a panicked market, and with the exception of two minor tweaks in accounts in custody at Charles Schwab & Co, where we have far greater ability to be targeted in our efforts, we didn't. So far, this strategy paid off. From the March 23rd low of 2337.40, through Friday April 17th, the S&P500 has gained 537 points, or approximately 23%.

The math here can be misleading. Larger percentages against smaller beginning balances can give the appearance of extraordinary success. The S&P500 has some distance to go before reaching the January 2nd starting point for the year, 384 points to be more precise. It will take an advance of 512 points to reclaim the former all-time high. Still, it is perfectly appropriate to pause and acknowledge the wisdom in having stayed calm throughout the worst of the storm. And it would be perfectly appropriate for each PIM client reading this to stand up and take a bow for keeping your composure through a most unprecedented time. While it may seem silly, a little silliness right now might be a very good thing.

We will shortly be rebalancing accounts at all custodians and making additional targeted changes to our investment portfolios, so you can expect to see a flurry of trade confirmations in the coming days.

Virus Update:

As this is a most fluid situation, we are reluctant to convey statistics that will be outdated by the time you read this. But as of now, more than 34,000 Americans have lost their battle with COVID-19; the most recent data we can find suggests a total of over 677,000 confirmed cases through yesterday. The growth rate of cases in the US and globally is falling, as distancing and other social policy measures appear to be working.

Economic Update:

Twenty-two million jobs have been lost over the past four weeks. Over the past decade, the U.S. economy generated 22.8 million jobs. Within a month, the pandemic erased all job gains of the previous business cycle. The IMF is forecasting that global GDP will contract by 3% this year. For perspective, global economic activity declined by 1% during the 2008-9 Financial Crisis. U.S. GDP is expected to decline by 20-30% for the second quarter before rebounding later in the year.

The most positive aspect of the policy response has been the actions of the Federal Reserve. With record speed and little debate, they have moved decisively to limit the impact of the economic shutdown on capital markets. While the Fed is not buying equities, many other types of assets are being supported by one Fed program or another. Last Friday, when six million job losses were announced, the Fed counteracted the news by announcing a 2.3 trillion-dollar purchase program, extending their reach into municipal bonds, collateralized loans and commercial mortgage backed securities.

The Fed took eight months from the beginning of the Financial Crisis to start their first asset support program. It took three years for Roosevelt's New Deal to stop the decline of the economy during the Great Depression. The Fed has done more in the past 90 days to respond to the COVID-19 crisis than any coordinated policy response to any prior crisis. These actions should prevent the current economic downturn from turning into something more severe and longer lasting.

There is a real possibility that the stimulus from both the Federal Government and Federal Reserve will exceed the economic loss of current public policy. Stimulus will find a its way into the capital markets over the coming months. Will the role of stimulus be to keep the economy on life-support, or will it serve to fuel a recovery?

The answer to this question rests on how quickly people can get back to work and then reach a level of confidence that supports spending beyond groceries, mortgage/ rent payments and other essentials. If we can return to 80% of normal output by the third quarter, policy interventions in place now will create a tailwind for financial assets.

Closing Comments:

PIM continues to operate at full capacity. We encourage you to reach out to us if you have any questions or concerns. For now, please be well, try to stay relaxed and enjoy the extraordinary weather. When the sky is blue and the sun is shining, the Pacific Northwest may be the most beautiful place in the country. And for those in other locals, our sincere best wishes that Spring is upon you as well.