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How Can We Help You Preserve Your Financial Independence? Using the Power of Knowledge to recover from COVID-19 Stay Healthy & Safe Now!

This past week has been a difficult period in the financial markets to say the least. Both stocks and bonds sold off in response to more aggressive containment and social distancing how long a potential recession will last, how bad will the recession be, and when will the financial markets start to recover. We address each of these concerns below, along with measures put into place in Europe and the U.S., which has increased the likelihood of a U.S. recession occurring this year, perhaps soon. Investors remain on edge given uncertainty over our view of the best way forward.

How Long Will a likely U.S. Recession Last? How Bad Will the Recession Be?

The U.S. economy is coming to a grinding halt as most major companies have implemented "work from home" plans (we have too for many of our GFA team) and more and more local governments mandate closure of non-essential services/businesses and distance learning for public schools. As demonstrated in China and South Korea, such social distancing measures are essential to effectively containing the spread of COVID-19 (coronavirus). As you probably know, consumer spending is about 70% of Gross Domestic Product (GDP). Since consumers will not be spending, a recession occurring soon is highly likely.

In the meantime, the U.S. Federal Reserve ("Fed") has acted swiftly to support our financial system. The fed has cut its target for short-term rates to near zero and re-starting quantitative easing (i.e. purchasing U.S. Treasuries and agency mortgage backed securities). Both these policies will lower interest rates to help the economy recover more quickly. The Fed has also been working with other central banks around the world to ensure stability within short-term lending markets. The Fed will likely restart multiple "13(3) lending facilities" used during the financial crisis to support the flow of credit to households and businesses. All these actions are designed to help our economy recover.

While the Fed is providing a backstop to the financial system, in terms of ensuring banks remain well capitalized and easing the flow of credit, there is a limit to what it can do. Unlike the financial crisis of 2008/2009, containing COVID-19 is not threatening the solvency of the U.S. banking system but rather significantly affecting the real economy (i.e. owners and employees of small and large businesses) due to the abrupt decline in consumption of goods and services. The real economy essentially needs to be kept in "suspended animation" until COVID-19 has been effectively contained and the pace of new cases substantially declines. This requires a significant fiscal response by the U.S. government. The size and scope of the fiscal response will determine the severity of the potential recession that may occur as a result of containing COVID-19.

Fortunately, there has been tremendous cooperation in Washington as most politicians recognize the extraordinary nature of this problem. The Trump administration pushed Congress to act by Monday, March 23, to pass a massive stimulus package to prop up consumers, companies, and local governments. The plan includes tax rebates of up to $1,200 for individuals and $2,400 for married couples below certain thresholds and $208 billion worth of loans and guarantees for airlines, cargo carriers, and other eligible businesses (e.g. hotel and cruise industries). Senate Republicans have also unveiled a $1 trillion economic stimulus package that is intended to deliver critical aid to U.S. businesses and the American public. The details to this bill need to be hammered out by both the House and Senate. The final bill is expected to include $300 billion for forgivable bridge loans to small businesses guaranteed by the Small Business Administration, a temporary waiver of interest on all student loans held by federal government agencies, and aid to states dealing with the cost of the COVID-19 outbreak. According to Goldman Sachs, for fiscal stimulus to be effective supporting the economy, it will need to amount to 2% of GDP (or $800 billion) and be administered over a short period of time (up to two years). It is also important to point out that President Trump has no other choice than to be highly motivated to soften the economic impact of COVID-19. No U.S. president since Eisenhower (1956) has won a second term while there was a recession.

While the scope and speed of fiscal policy support will determine the severity of a potential recession, the length of the recession will be determined by how long it takes to fully contain COVID-19. According to Alex Perkins, an epidemiologist at the University of Notre Dame in Indiana, it will take "a few months" for the outbreak to peak in the U.S., which is in-line with trends in China and South Korea and supports Goldman Sachs' expectation that the U.S. should see meaningful improvements in infection rates by the end of April. Given the underlying health of the U.S. economy prior to the COVID-19 pandemic, the strategists we follow expect a robust rebound in U.S. economic growth once the outbreak is fully contained.

How long will stocks continue to decline? When Will the Financial Markets Start to Recover?

U.S. and foreign stocks are currently in a bear market. Bear markets are defined as a 20%+ decline in price over at least a two-month period. The current bear market, which was triggered an exogenous shock to the financial markets as a result of COVID-19, is considered to an event driven bear market by the experts we consult with. Event driven bear markets tend to be the shortest type of bear market (lasting 7-9 months) with an average drawdown (peak-to-trough price decline) of 30%. Event driven bear markets also tend to have the fastest recovery period, or time it takes for the market to fully recover what was lost (15 months on average).

We anticipate stocks will begin to recover when there is a definitive slowdown in the trend of new COVID-19 infections, assuming the U.S. government follows through with providing substantial fiscal support to the economy. If containment mandates and social distancing efforts persist, this could happen sometime in the second quarter. It is also important to point out that new stock market cycles (i.e. extended periods of rising stock prices that begin at the end of a bear market) tend to precede the start of new economic cycles, or an expansionary phase of economic growth, by three to six months (First Trust). The economists we follow expect U.S. and global economic growth to rebound toward the end of this year. Assuming this rebound starts in October, it is plausible to expect stock prices to start their recovery sometime between April and July.

Helpful Resources

The spread of the coronavirus across our country has created a very stressful environment for all Americans. During these difficult days, we are working hard to help our clients and staff, understand how to protect ourselves as well as how to keep informed on the daily updates provided by our government agencies.

In light of current events and potential financial difficulties caused by the COVID-19 outbreak, the Internal Revenue Service (IRS) has postponed the 2019 federal income tax filing and payment deadline until July 15, 2020 (IRS Gov). We recommend that you consult your tax, legal, and account professionals before modifying your filing procedure. Below are a few links to help you stay informed and to help keep our community healthy.

Centers for Disease Control and Prevention:
https://www.cdc.gov/coronavirus/2019-nCoV/index.html
World Health Organization:
https://www.who.int/emergencies/diseases/novel-coronavirus-2019
US Department of Education: https://www.ed.gov/coronavirus?src=feature
IRS: https://www.irs.gov/coronavirus
State of California Franchise Tax Board:
https://www.ftb.ca.gov/about-ftb/newsroom/covid-19/index.html
State of California: https://covid19.ca.gov/
California Department of Public Health:
https://www.cdph.ca.gov/Programs/CID/DCDC/Pages/Immunization/ncov2019.aspx

Alameda County Public Health Department: http://www.acphd.org/
San Francisco Department of Public Health: https://www.sfdph.org/dph/default.asp

Please Stay Healthy & Safe!

The reality is that for people over sixty, the medical experts are telling us that this coronavirus can and likely will be a life and death issue for some portion of our community.

In my view, we have all been given a daunting challenge along with a gift.

The challenge is that each of us must now become immediately very concerned for all our family, friends, neighbors and larger community, possibly in ways we have not been previously. The challenge is to shelter in place and prevent the rapid spread of COVID-19. If we are able to "flatten the curve" as the new phrase to describe minimizing the spike in new infections relates, we will save many lives, probably some of people we personally know.

I learned my favorite phrase in life from R. Buckminster Fuller ("Bucky"), who designed the geodesic dome and created the word synergy (the whole is greater than the sum of its parts). Bucky was an architect who became a philosopher. "Opposites always and only coexist" is something I regularly heard Bucky say when I was fortunate enough to study with him in 1970. "The glass is not half full or half empty, it is both simultaneously. We choose only to see one view." This phrase inspires me to see the "other side" of our current challenge…

The gift we have received along with the necessity to shelter in place (for those of us on "Lockdown") is the opportunity to evaluate what is important to us in our lives.

Is this importance the people we most love and appreciate? Is it the memories we create by the important relationships we have in our lives. Is it service to others and the emotional and psychological reward we derive from our service? Is it the love of ourselves and taking care of our health as best we can? On the other hand, is what may appear to be important "things" and status; ego and the hallow "likes" of others who may not sincerely care about us? Now is the time for each of us to have more empathy and caring; first for ourselves by protecting our own lives; and for the many others who will be affected by the actions we take as individuals. Please stay safe and self-isolate.

I appreciate the emotional and psychological trauma we have been enduring. Since it is new to everyone, each of us is probably emotionally traumatized by this experience. Making certain we get healthy exercise and eat nutritious food; caring for our minds and emotions is also important. The line of cars parked adjacent to the entrances to public parks near our home is filled each day. The experts suggest we stay in contact with others as the social connection, whether by phone call, text, email, video conferencing or other technology is one way to remain part of our community and fight the unsettling experience we are enduring. Stay in touch, just not physically!

What will happen when the "Lockdown" ends?

It will take time for us to heal emotionally and financially. One of the most beneficial ways I try to look at decisions is to attempt to "fast forward." If I think about what I might see if I were looking back at today from a decade into the future, I am frequently able to make more effective decisions today.

While it may be hard to see into the future, history teaches us valuable lessons. As we recover from this pandemic, the world will continue to spin. The world will require companies, not countries, to deliver goods and services. Stocks will rise and opportunities to recover and grow your portfolio exist. We will find good ways to help you grow your financial assets.

Please stay healthy and safe! Let us know of your concerns. We are here to assist you!