Newsletter

State of the Economy

April 2020

I hope you are safe and healthy as you receive this Newsletter. These are obviously difficult times for everyone. First and foremost, this is an unprecedented human crisis. As the world continues to try to contain the COVID-19 pandemic, the virus has likely impacted nearly every person around the globe. My thoughts are with those who have fallen ill and my gratitude is with the first responders saving lives as well as the scientists working tirelessly to find a cure.

As we turn our focus towards the economy, we witnessed a startling change in less than one quarter. Just a month and a half ago, the U.S. economy was cruising along with unemployment at a half-century low of 3.5%. The stock market was at record highs. Fast forward to April and we are now in the midst of our first bear market since the financial crisis with a probable recession on the horizon. The coronavirus resulted in an extraordinary disruption to the global market bringing many businesses to a standstill. The sudden drop in financial markets was exacerbated by computer driven trading models, investors unwinding risky bets and asset managers moving out of what is typically considered safe assets to hold cash. The uncertainty of how long this pandemic will linger leaves a cloudy picture on what the economy will look like going forward.

This desperate time calls for desperate measures. At least that appears to be the mantra of various governments grappling with similar problems. In coordinated action with central banks all over the world, our Federal Reserve ("Fed") already cut interest rates and announced open-ended asset purchases. The Fed's actions represent a historically aggressive attempt to mitigate disruptions throughout the financial market. Their goal is to re-establish the free flow of credit to consumers, businesses as well as state and local governments. Fed Chair Jerome Powell stated that the US central bank stands ready to do "whatever it takes". His comments echoed the same words that European Central Bank President Mario Draghi said in the aftermath of the Great Recession to keep the Eurozone from unraveling. On Capitol Hill, Congress enacted a $2.2 trillion fiscal stimulus package to rescue struggling businesses and impacted Americans. This should be only the beginning of what's to come. These monetary and fiscal policy initiatives cannot fix the problem. However, they can help ensure that as many businesses as possible are stable enough to resume once this global pandemic wanes. These actions already helped to reassure some investors. But, equity markets may see a return of volatility when businesses start reporting quarterly performance and earnings in a few weeks. Economic activity in many countries has ground to a halt as governments placed restrictions on air travel and work to limit the contagion.

This recession, unlike others, has been called a "recession by decrees", because controlling the virus demands the current shutdown. In past recessions, negative economic activity led to prolonged bear markets. At the outset of this pandemic, the financial sector was strong, and unemployment was at historic lows. One would conclude that the U.S. economy should have been in a position to absorb some of the shock. While, the duration of the shutdown remains unknown, the impact is likely being mitigated by a strong fiscal and monetary response.

It can be difficult to focus on the long-term future during times like this. Nevertheless, we do know there will be an end to this pandemic. Will this be a V-shaped recovery? Will the economic impact of this health crisis have staying power? How high will unemployment rise? At this point, experts lack definitive answers, but I am confident that American resolve will win out. Over time the outbreak will eventually be contained, businesses will reopen and fiscal policy support should continue to expand. The US economy has steered its way through World Wars, the Cold War, financial crises and geopolitical events. History teaches us that financial markets consistently return to normalcy and investors are eventually able to regain optimism in their economic future.

The biggest threat to your investment portfolio over time is actually YOU. Human emotion can cause an investor to make imprudent decisions especially during bleak times. It was hard to be enthusiastic in 2008, when few could envision the emergence of a positive market coming out of the financial crisis. Those who sell in a market storm cannot pinpoint when the storm clouds will begin to lift. Missing the stock market rebound is perhaps the biggest risk to an investor in achieving their long-term goals.

Here is a look at how the average investor fared through two bear markets between 1998-2018.

Emotional Investing

I believe the market will fully recover and reach new highs in the future. It may take more than a year, but it will depend on YOU to maintain resolve in order to reap the benefit.

Stay healthy. Stay strong.

Sincerely,

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