Market Brief

March 26, 2020

Market Snapshot

Closing Values as of 03/26/2020

Dow	22,552
S&P 500	2,630
Nasdaq	7,798
Gold	$1,643

Welcome to the Great Suppression

This has been the shortest, swiftest, deepest correction we have ever experienced from a market high to the bear market lows, but it's not a traditional bursting of a bubble or structural event like in 2008 where the system was over leveraged at all levels-banking, consumer and corporate -thus creating a widespread systemic issue. This time, it's really been about fear and the demand shock to the economy our national pandemic mitigation efforts are creating.

In some ways the current downturn may be similar to the downturn we saw following the 9/11 event. The events of 9/11 lead to the shutdown of air travel and broadly impacted commerce for a short period of time, but it didn't take long for people to return to work and normal economic activity to resume. In other ways, the global pandemic is becoming more like the 1920's era Alcohol Prohibition, as state governments impose specific restrictions on activity in an effort to more aggressively contain the spread of the virus…forcing further demand contraction by taking away places and opportunity to spend. These aggressive mitigation measure are without any doubt, going to lead to an economic downturn/recession, the depth and duration of which is dependent on the success of the social distancing measures in slowing/stopping the spread of the Covid19 virus AND how well our politicians are able to soften the economic blow through strong fiscal and monetary policy.

This week, the Federal Reserve signaled they will do "whatever it takes", in terms of monetary policy by announcing what amounts to QE infinity. The Fed's bazooka shot will (should) act to stabilize the credit markets, whatever may come, ensuring they don't become part of the economic emergency left in the wake of the worldwide pandemic mitigation response. Later in the week the senate unanimously passed a $2 Trillion fiscal stimulus bill that is expected to be passed in the House and signed by the President by the weekend. This new bill has STRONG financial support for families, workers, small & large businesses as well as hospitals and various state agencies…and fairly little political fluff. This kind of monetary and fiscal policy support is what was needed to ensure our economy is able to go into "stand still" mode for up to 4 months and emerge strong enough to shake off the forced short term recessionary contraction and begin, what many believe will be a sharp, strong, recovery.

Not only has COVID19 caused a historically swift and deep market bear market, it has taken us from a historically low sub 200k unemployment rate to an unbelievable and historic high of more than 3 MILLION in only three weeks. This number is expected to grow, perhaps by a factor of 10 or more as more workers are asked to remain home and more are finally able to file. While this might sound like unbelievably BAD news, it really isn't. That is because Congress has included as part of their $2 Trillion rescue package an enhanced unemployment benefit that the unemployed will be able to receive immediately. In many cases they will also receive state benefits, meaning most, if not all of their wage will be replaced for up to 4 months.

What about the Markets?

The stock market is usually a very efficient discounting mechanism, able to take in all available information, digest it and price itself based on earnings expectations 3-6 months out. When the Corona Virus epidemic became a clear global health and economic threat all previously known fundamental data and projections became irrelevant or unreliable. Absent reliable fundamental data to base prices on, the markets imagined the worst possible outcomes, sending the markets into a tailspin guided only buy technical's, charts and trading pattern analysis. As more becomes known about the spread of the virus, our ability to mitigate its impact and the success of our government's fiscal response, the markets will use that information to discount a future recovery and price accordingly.

Right now, the market is still detached from reality, lacking enough fundamental data to reasonably estimate what earnings might look like in the second quarter and beyond. This means the markets will remain unpredictable and volatile for quite some time. Even with earnings season only weeks away, we may not get enough guidance to bring more clarity or reality to the markets for some time. If history is any guide (and it usually is), the markets will stabilize and begin to recover well before people "feel" better and probably while the viral spread is still concern. We don't know when this will happen but, because of the nature of the cause and the massive fiscal response likely to blunt the economic impact, the market may sniff out a recovery much sooner than it has in past bear markets.

We are still very early in our national response to the viral epidemic, with many unknowns still left to answers. I would caution against believing that this week's impressive rally means the "it is over", bear markets aren't so kind. My advice is to use this momentary reprieve to compose yourself and build a cash reserve IF you need it, and make a plan for what you would want to buy and at what price when the markets retest the lows (or make new lows). Don't chase the rally!

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