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Perspective on the Market

Stocks continue slide on fear of economic slowdown from COVID-19

U.S. stocks declined sharply yesterday in extremely volatile trading as the emergency actions by the Federal Reserve on Sunday didn't calm investors.

The S&P 500 Index fell 12.0%, and Monday's losses put the index 29% below its all-time high on February 19th. The Russell 2000 Index, which tracks stock performance of small companies, declined 14.3%, down 39% from its January 16th high. The yield on the 10-year Treasury fell to 0.75% as investors are shifting into investments that are seen as safe.

In response to the COVID-19 crisis, governments and central banks all over the world have enacted fiscal and monetary stimulus measures to counteract the impact of the virus.

Last week, the S&P 500 fell nearly 9%, despite a strong rally on Friday, up 9.3%, during President Trump's speech when he declared a national emergency over the COVID-19 pandemic and announced the release of up to $50 billion in federal aid to fight the virus.

On Sunday, the Federal Reserve also lowered interest rates to zero. However, this second surprise rate cut by the Fed, like the first one on March 3rd, failed to calm markets. The Fed also announced a revived quantitative easing program to purchase at least $700 billion in U.S. Treasuries and mortgage-backed securities, which followed plans announced last week to inject as much as $1.5 trillion into the short-term money markets.

These moves are aimed at keeping the economy stable and financial markets flowing freely, inserting liquidity, and making borrowing costs as low as possible. "The primary purpose of these securities purchases is to restore smooth market functioning so that credit can continue to flow," said Fed Chairman Jerome Powell.

From an economic perspective, COVID-19, which started out as a negative supply shock with factory shutdowns and supply chain disruptions, is now turning into a severe demand shock as people are staying at home and consumer spending has sharply declined. As a result, recession fears are growing in the U.S. and globally, and companies are facing lower profits.

We believe the uncertainty and volatility in the financial markets, and concerns about the spread of COVID-19, will continue during this period of social distancing and widespread shutdowns, and until we get more clarity regarding the containment of the virus.

We are monitoring and evaluating the situation and our holdings. Having a larger than normal cash balance was a drag on performance in 2019, but we are now using the cash and the market sell-off to invest in new opportunities in select companies and add to existing holdings at much more reasonable prices. We are focusing on companies with strong balance sheets, revenues that are resilient during the shutdown, valuations that are compelling, and that are appealing long-term investments.

This is a rapidly evolving situation as COVID-19 continues to spread. We hope you and your loved ones are safe during this unprecedented time. While sharp declines in the markets are unsettling, we are here to help. Please contact us if you would like to talk about your portfolio and individual situation.
