THE VIEW – An Update

We are sure that all of our clients have been subjected to more commentary on COVID-19 than one can process, and yet we all, including economists and market professionals, remain uncertain as to how things will all play out for the global economies and markets. However, as your wealth management counselors, we feel an obligation to pass along our thoughts and recommendations during this difficult period.

First, let's look at the past week. In what seemed a precipitous stock market slide, extending that of the previous week and a half, the S&P 500 Stock Index, actually rose modestly, +.6% over the five trading days on the strength of sharp rallies on Tuesday and Thursday. Many attributed these to political rather than virus-related developments, and unfavorable coronavirus news appeared to underlie the three down days. Attendant to this market drop has been acceleration in market volatility to levels not experienced since the Financial Meltdown of 2007-2009. With a constant flow of mostly unfavorable news on the virus front, the resultant negative impact on economic expectations, and the volatile market reactions, we find ourselves caught in a vicious circle, where both news and market reactions feed investor fear and dampen economic activity, leading to more negative news and more market instability. The combination has driven stock markets, economic performance forecasts, and interest rates sharply lower, leading investors to seek shelter in investment grade bonds, primarily U.S. Treasury issues, cash, and gold. As we start this week, the same trends are playing out even more strongly, stocks down sharply, and bond yields falling for investment grade issues. The collapse of oil prices over the weekend has only heightened the market unrest.

Our base case is that this situation will persist in the weeks ahead, but we also recognize that there could be very sharp upside reactions along the way. We know that markets usually anticipate economic outcomes, which means taking advantage of buying opportunities as they present themselves even when one is still experiencing grave doubts about the future of stocks. Attempting to buy the market right at the bottom is an unrealistic goal, but taking advantage of a major correction or a bear market is a reasonable objective. We prefer to see some stabilization of conditions before committing to an increase in equities. History has demonstrated that there is usually ample time to add positions at attractive prices. Until we believe such action is warranted, our preference is to avoid radical changes in asset allocation, relying on the diversification in place to buffer downside stock impact. However, we will look for opportunities to mitigate risks within portfolios by careful scrutiny of both stock and bond holdings, making such adjustments as we deem prudent to move toward lower risk and lower volatility. We are in a period where "Risk Off" is the more prudent posture to hold. Cash, even with miniscule yields, is not a bad choice for overweighting right now. We suggest that you evaluate what your cash needs will be over at least the next six months and share this with us.