Thoughts from the Holy City – April 2020

"*A more secure and more prosperous world is also good for the long-term security and prosperity of the United States. And America's role in building that more secure world has been and will likely continue to be indispensable.*

- *Jamie Dimon*

The last month has proved to be one for the record books as the global economy and markets dealt with not one, but two "black swan" events. The first being the oil crisis as a result of the Saudi-Russia price war, and the second, the COVID-19 (Cv.) pandemic. The Cv. pandemic has emerged as the more concerning event and the implications, both health and economic/financial, are short term and long term, as well as unknown. As news of the Cv. spread and it became more apparent that it was going to be something that affected the entire world, panic and fear spread faster than the virus itself. The equity markets fell with a ferociousness and velocity unlike anyone has ever seen as the fear of the unknown set in, and it was apparent that it is, for the most part, out of our control. As human beings in today's interconnected and fast paced world, we are consumed with control, and when we can't control something or don't fully understand it, it creates innate fear and vulnerability. We are still in the eye of the storm and are adjusting to what is the "new normal," at home with our families and loved ones, waiting for the storm to pass. I believe that life on the other side of this will be different, but perhaps in a good way.

The market downturn that began in February continued with even more intensity in March. As the equity markets plummeted, we witnessed several days in which circuit breakers were triggered, and the contagion of the selling and uncertainty spread to the fixed income markets. The volatile days of markets in free fall reminded me of the Great Recession, but this was different. During the Great Recession the culprit of the economic and stock market fallout was the financial system in and of itself. This time, it is the fear of a virus and the far-reaching implications it has, and will continue, to have. The S&P 500 lost 12.5% in March, while the DJIA and NASDAQ were negative -13.7% and -10.1% respectively. International markets were roiled as well with the MSCI EAFE down -23.49% for the year.

Meanwhile, the credit (fixed income) markets have experienced their own bout of volatility as the financial implications on businesses remains unknown. As a result of the essentially nationwide stay at home order, businesses across the country have had to furlough and lay off employees in an attempt to stave off closure and/or bankruptcy. The industries most affected by these orders; restaurants, retail, airlines, hotels, cruise lines, and sporting & spectator events. As a result, unemployment claims have skyrocketed and will most likely continue to climb. The uncertainty around these industries and businesses has caused stress on the credit markets and more specifically,

the mortgage and high yield markets, as it is unclear as to how able they are to pay their bondholders (that hold their debt) and able to pay their mortgages.

Policymakers have reacted quickly and aggressively to try and mitigate the effects on the markets and economy. The Federal Reserve has announced two rate cuts to the Fed funds rate, now between 0% and .25%. Congress has passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, both of which are intended to provide some relief, although it is becoming apparent that it may not be enough. However, their actions have created some stability to the markets as details of the $2 trillion stimulus have emerged. Specifically, the Payroll Protection Program (PPP), which is intended to provide qualifying businesses access to a $350 billion pool of capital in an effort to help with expenses (mortgage, payroll, utilities, etc.) for eight weeks. Although this is most likely not enough, it is a good start. Additionally, the stimulus package provided residential loan forbearance, payroll tax credits, waiver of early withdrawal penalties from qualified retirement plans, waiver of required minimum distributions, among a number of other benefits. There is already discussion of additional stimulus, which will most likely pass through Congress soon.

The last moth has been a bit surreal, but I believe that it has done some good. It has made us realize the fragility of life and in many respects, forced us to get back to the core of what is important; health, family, friends, and religion. We are all in this together as we grapple with the fear and anxiety of the unknown. The financial and health implications have been severe and will most likely get worse. We have, and must continue, to come together as a country to mitigate the spread and impact of Cv. The United States has tremendous capabilities and is extremely resilient. We will continue to manage capital with the mindset of managing risks, thinking about the implications of every decision in terms of years and decades. Be well.

Views expressed are not necessarily those of Raymond James & Associates and are subject to change without notice. Information provided is general in nature and is not a complete statement of all information necessary for making an investment decision, and is not a recommendation or a solicitation to buy or sell any security. Past performance is not indicative of future results. There is no assurance these trends will continue or that forecasts mentioned will occur. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success.

The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. These international securities involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. An investment cannot be made in these indexes. It is not possible to invest directly in an index. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.