Thoughts from the Holy City – May 2020

"Nothing can stop America when you get right down to it. Never bet against America."

- Warren Buffett

As April concludes, globally, billions remain at home under variations of a lockdown and states are beginning to reopen. Covid-19 (Cv.) has affected almost every industry, with the implications more severe for some than others (restaurants, hotels, and airlines). The oil industry has also been deeply affected as demand as all but ceased, and prices of oil briefly turned negative in April for the first time in history. As states and businesses begin to reopen, it will need to be done carefully, thoughtfully, and deliberately, and most likely in phases. The damage economically and fiscally is unprecedented and remains unclear as we assess the damage from being in a forced lockdown for more than two months now. Policy response has been swift and already resulted in nearly $3 trillion of relief to people in need and to help cushion the economic implications, and here will most likely be additional support in the coming weeks. It is still unknown whether the economic relief will be enough to keep the U.S, and furthermore, global economies out of a prolonged recession. The damage has already been done, and many businesses that were thriving in January have been forced to close their doors, perhaps permanently. However, despite the dismal economic data that will continue to worsen, the equity markets moved significantly higher during April.

The record stimulus coupled with a slowing in the number of Cv. Cases has proven to be a prop for the capital markets. The S&P 500 rose 12.68% for April while the DJIA and NASDAQ climbed 11% and 15.45% respectively. International markets stabilized and climbed higher during April, but still remain down -18.26% for the year. Like the United States, international economies have been devastated by Cv., and are faced with many challenges as economic data continues to deteriorate and they begin to reopen their countries. Global central banks made a concerted effort to stabilize their respective capital markets and economies, but the same question of whether it is enough remains.

Fixed income markets stabilized after experiencing extreme boughs of volatility in March and the first part of April stemming from concerns about the viability of the companies that issued that debt. The effect also reverberated through the municipal bond market as concerns about the municipality's viability. Demand for high quality credits is strong and the market is also easing on lower grade debt. The Federal Reserve's swift actions alleviated some of those concerns and the fixed income markets have since calmed. The stimulus from the Government is contributing to lower yields as loans to small to large businesses and municipalities is more readily available. Consequently, interest rates on Treasuries are near historic lows which can also be seen in savings rates, mortgage rates, CD rates, etc. Given the current environment, I expect low interest rates to remain so for the foreseeable future.

Unemployment has reached 14.7% as over 20.5 million people filed for unemployment benefits in April. The global economy is currently plunging into to what could potentially be one of the deepest but shortest recessions in history. So often we hear the phrase, "this time is different" which is quickly dispelled by advisors and investors due to the characteristics of recessions being similar. However, this time is truly different as the global economy dives into recession due to government decree. Governments were forced to issue necessary, partial shutdowns for a temporary period of time to prevent an even greater humanitarian crisis due to Covid-19. Historical business cycles offer few clues to

what will most likely take place over the coming months and years. As healthcare systems struggle to function properly due to the overwhelming number of Cv. cases, governments have reacted swiftly to mitigate the implications on their respective countries and economies.

Policymakers have moved with unprecedented monetary and fiscal response, pulling out all the stops to attempt the recession for turning into something much more severe. Globally, central banks have been lending to banks, other financial intermediaries, and even nonfinancial corporations. Additionally, many governments have acted quickly to address concerns regarding liquidity and solvency. They have delayed tax payment deadlines and provided support for central bank lending programs. They have also provided income support for households and institutions.

The mandated shutdown will undoubtedly cause a recessionary environment, but the steps taken by central banks and governments will most likely prevent a global depression and also position the global economy for a recovery in the next several quarters. It will most likely be very painful in the near term as we emerge from the shutdown, but I expect that we will heal and ultimately emerge. There are downside risks such as a relapse in the virus or significant defaults from a prolonged shutdown. There are, and will continue to be, sectors and businesses that are unable to bounce back due the severity of the impact. The landscape will surely look different on the other side of this. Companies will most likely reassess how they conduct business (working from home versus expensive office space), individuals may have a new perception on the fragility of life and a greater appreciation for their loved ones, and our own health is also very important. I heard the phrase, "The Great Reset" referring to Covid-19 and the past few months. If there is a silver lining, it has been a time to reflect on our lives and understand what is the most important. Be Well.

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