

Spring Quarterly Newsletter: Volume 41 Issue 2

Notes: While financial services are an essential service, our printshop is not. In addition, many of you are receiving this by email instead of regular mail for the first time. If you would like a physical copy, please let us know. I am happy to report that my staff and I have transitioned to working from home, with me in the office, fairly successfully. This practice helps keep our employees safe and ensures that we can continue to service you, our clients. If you have any concerns, please don't hesitate to reach out to me directly.

Kevin's View: Everyday a Month

I hope this missive finds you and your families in good health and, at worst, suffering from a bad case of cabin fever. Everyone here is healthy, although based on my last discussion with my mother I am not sure everyone is avoiding 'cabin fever' as she asked me, "Is there anything your father can do at the office...anything at all?"

It's admittedly hard to write a commentary right now given the amount of information being put out and the speed at which things are changing. Each day seems like a month lately. In the interest of providing some organization let's break what we are looking at into the following two areas: COVID-19, and the economy/markets.

COVID-19

As of this writing, we are starting to see some "plateauing" of the virus in hot spots like New York, Italy, and Spain. This will be a process where we will see a number of reversals as the statistics bump up and down. It does appear practices, such as social distancing, are helping. Additionally, as more testing capacity comes online and testing speed comes down it will allow for much greater confidence in the progress against the virus. The summer heat should also help slow the spread. The real question is whether or not we will see a rebound in the fall and winter months.

There is a lot of talk of the Spanish Flu pandemic in 1918/1919. It started during the Spring and slowed greatly during the summer. There was a second wave during the fall that was much more deadly than the initial wave. With COVID-19, I think we will likely see an uptick in cases again in the Fall, but I also think by then our progress on testing, therapeutics, and vaccines along with social distancing techniques should allow us to weather a flare-up much better than what happened during the Spanish Flu.

I also think these times will be written large upon the world psyche, much like the Great Depression was. From minor changes like greetings less likely to pass germs (fewer handshakes), to families keeping a larger stock of non-perishable goods on hand (read: TP), to larger changes such as companies taking a hard look at Just-in-Time inventory models and the benefits of global supply chains, we will see a number of long lasting changes that we will be able to track back to this time.

The Economy / Markets

To say this is the largest economic event in our lifetime is, unfortunately, not hyperbole. I won't recount here the various economic records broken (to the negative) at this point or the ones we expect to fall. Nor will I detail the enormous steps taken by central banks, such as our Federal Reserve, and governments around the world to shore up economies.

Economic prognosticators have tried to reference just about every past economic disturbance. I've heard mention of The Great Depression, the Global Financial Crisis, the dot.com bubble, Y2k, 9/11, the Asian Currency Contagion, and others. To be honest it will take months to fully understand what is currently happening in the world's economy or even the economy in the United States.

You will hear a lot of talk of “V”-shaped recoveries versus “L”-shaped recoveries or even “U” shaped recoveries. Given we don’t fully know the extent of the economic damage it’s too early to make those judgments. A real question is how small businesses will weather this storm as they are a key part of our economic strength. That being said, the economy in the United States is the most flexible in the world and while it is likely that we will see higher unemployment due to COVID-19 we will likely also put people back to work faster as well.

There are two other issues of note beyond COVID-19. The first is the gyrations in the oil markets. A dispute between Saudi Arabia and the Russian Federation caused oil production to spike at the same time the oil demand cratered due to everyone staying home. Normally cheaper oil is a boon for the economy but right now it has limited effects. This is likely to be a short-term issue that should resolve itself in the coming months as it is damaging to all parties involved.

The other issue is regarding the flow of money around the financial markets. We noted there was an issue with the overnight repo market in our last newsletter. With the uncertainty of COVID-19 there has been ripples in other markets including treasuries and municipal bonds. As of now, the Federal Reserve seems to be dealing with these issues, although it is an area we are closely monitoring.

We continue to see very high volatility in the markets. In fact, we’ve broken records right and left on market volatility. We do not see that volatility abating in the near future. For long term investors we advise to staying the course for the most part. As for now we continue to see this as a temporary dislocation rather than a fundamental change in the long-term economy.

I would like to take this moment to thank you for your continued trust and support. If there is anything we can do to help you through this time please reach out by phone or email. I always feel that during times like these we can add the greatest value.

Best wishes for health to you and your families,

Kevin P Sullivan

Kevin P. Sullivan, CFA, CFP®, AIF

Any opinions are those of Kevin Sullivan and not necessarily those of Raymond James. Expressions of opinion are as of this date and are subject to change without notice. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.