ECONOMIC & MARKET REVIEW

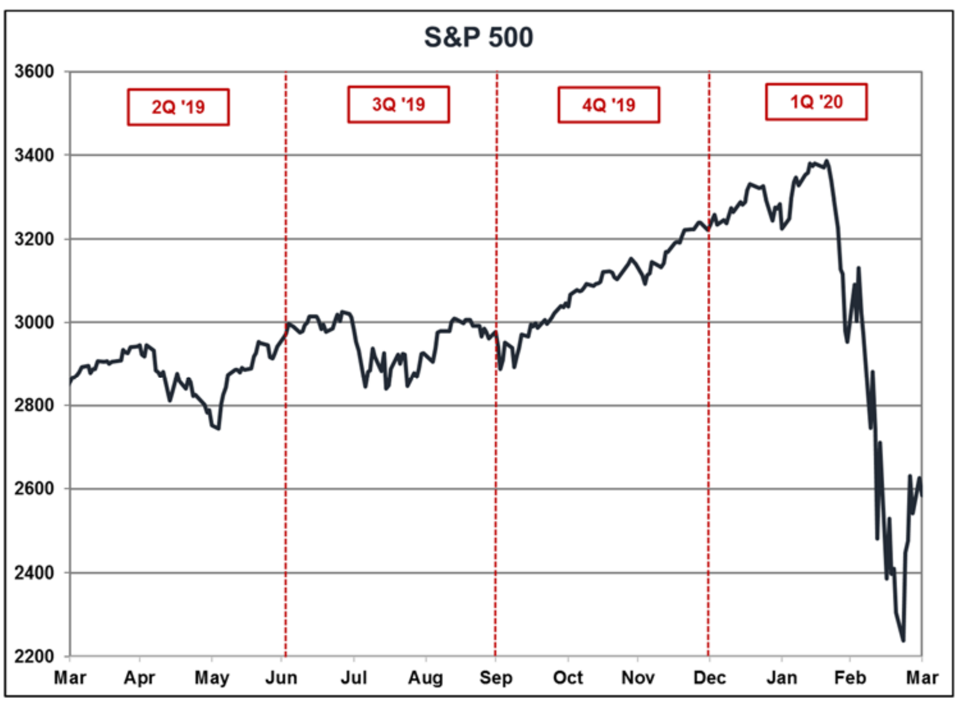
First Quarter 2020

Q1 – Off to a normal start, then the storm.

The first quarter 2020 started out normal, it was the calm before the storm. The S&P 500 Index was flat in January and hit an all-time closing high on February 19th. Seems a lifetime ago. The Barclays Aggregate Bond Index had a positive return for the quarter, but not nearly as positive as you might have expected. As the markets melted down, the fixed income market began to seize up, creating a log jam which led to weaker performance than expected. International equity markets were punished too, given that COVID-19 respects no borders and has caused a global economic calamity.

Q1 2020 Performance

	Q1
S&P 500	-19.60%
Russell 2000	-30.61%
Barclays Aggregate	3.15%
MSCI EAFE	-22.83%
MSCI EM	-23.60%



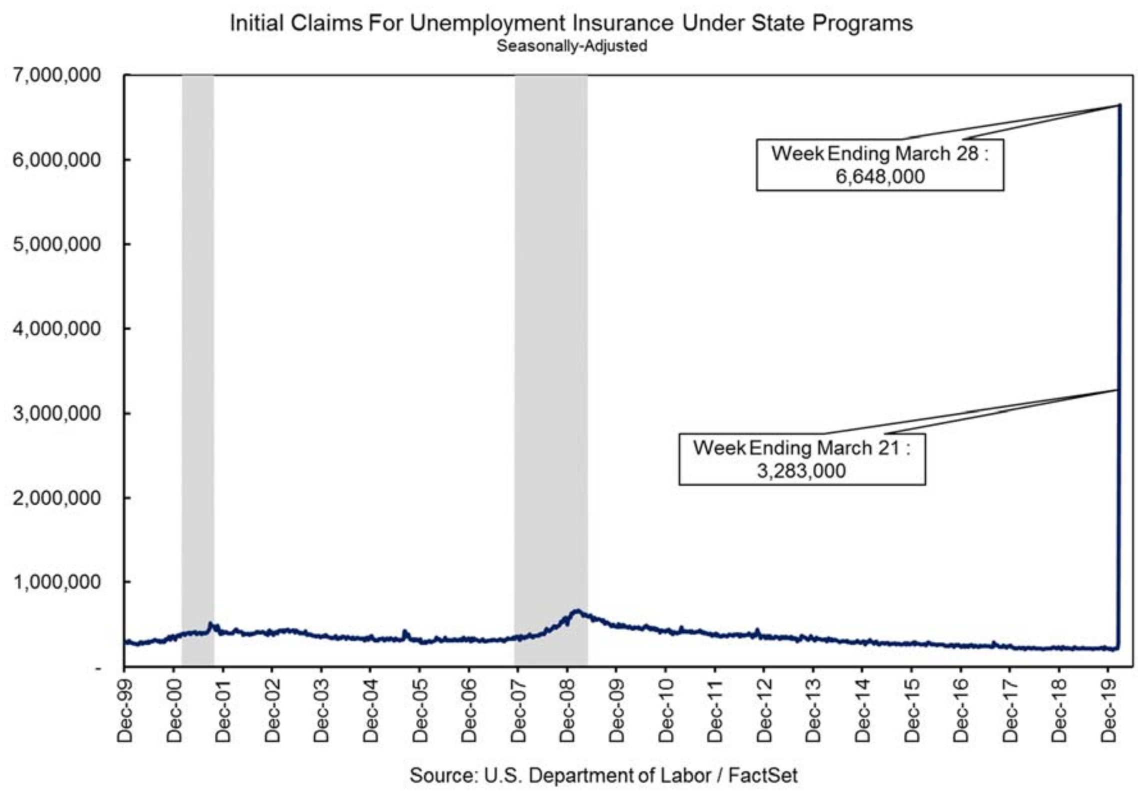
Source: Factset Research. As of 4/1/2020

Bad economic news will continue until life begins again.

Breathtakingly bad economic news in the U. S. will continue until the government mandated stay at home order starts to be lifted. The order to begin life again depends on two conditions – (1) the number of new COVID-19 cases has to flat-line, we have to get to the top of the curve, and (2) we have to see a significant decline in the *rate* of new infections. When will those two events occur? Your guess is as good as mine. I've seen computer projections that put the peak of new infections in mid-April, and the peak in deaths in mid-May. The problem with this very scientific analysis is that there are many assumptions that go into the calculations, and some of those assumptions will be wrong. But, at least they give us additional information and that is a positive, as long as you take them with a grain of salt.

Unemployment rate could top joblessness during the Great Depression.

The weekly claims for unemployment insurance, reported on Thursday, March 26th, soared to 3.28 million. That's only the beginning – these weekly unemployment claims reports will continue to be horrendous.



On Friday, April 3rd we will receive the first unemployment and payroll report since the collapse began. That report will have picked up the start of job losses which occurred due to the shutdown of the economy. Job losses reported in May and June will be in the millions. Two weeks ago, James Bullard, President of the St Louis Federal Reserve Bank, suggested the unemployment rate might reach 32% with job losses of 47 million. That would easily exceed the 25% unemployment rate during the Great Depression. For context, in February the unemployment rate was 3.5% and there were 164.5 million people in the civilian workforce. These statistics are troubling as the U.S. consumer and their spending habits make up 66% of GDP in this country and 17% of world GDP. We are all worried about the economic consequences of this virus. As long as that is the case, the economic growth engine is idle. The sooner the virus can be conquered, the less economic damage will accrue.

The Federal government steps in – with plenty of ammo.

Understanding these outcomes and the nature of the crisis, the President, Congress and the Fed have fired both barrels at the economy and markets. Federal Reserve monetary efforts include: money market lending facility, commercial paper funding facility for corporations and municipals, unlimited purchases of Treasury and mortgage securities, asset backed securities loan facility, investment grade credit funding facility – direct lending, corporate credit funding facility – asset purchases, Federal Reserve lending to the Exchange Stabilization Fund, (ESF), which can be leveraged higher to the tune of $4.5 trillion. In addition, the Federal Reserve is buying securities again, the remedy formerly known as quantitative easing. Currently, the Fed's balance sheet is $5.25 trillion, it will go higher, much higher. I think $10 - $20 trillion is possible. As of now, the U.S. Congress and President's fiscal efforts have included the CARES Act, a $2.6 trillion economic infusion, which is more than 10% of U.S. GDP, and double the Great Recession stimulus in 2008. With the ability to leverage the ESF, this brings the total impact of all of the above to 20% of GDP. Nothing historically is of this magnitude. The hope is that this unprecedented number of programs and dollars will hold both the economy and the markets together long enough to be able to move past the negative economic effects of COVID-19.

Global crisis has spawned global fiscal and monetary response as well.

It is also worth noting that the fiscal and monetary response is global. Over the past eight months, there have been 253 monetary easing moves around the world. The ECB's €750 billion bond-buying program and the G-20's $5 trillion pledge to spur global growth are more examples. Japan and China also have large plans underway to support their economies. It all adds up to a massive global stimulus. If there is good news, it's that we have fiscal and monetary tools and safety nets (albeit imperfect ones) in place today that weren't even thought of during the Great Depression. And we are not trying to recover from a World War as we were in the 1920s.

What's next? We wait.

The virus left only one option, which was to shut everything down and wait for the infection and death rates to drop. Painful, yes, but necessary. So, we wait. We do know that sheltering at home works. We will not get to the "all clear" moment any time soon, but we will arrive at a point in time that we can slowly begin to come out of our homes and reengage. The sooner and longer we stay home, the quicker we will get back to normal – whatever normal looks like in the future.

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