THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update – Special Edition

The Markets

It has been a month since the stock market started its panicked plunge, and indeed this decline qualifies as a market "panic" as literally every asset class from stocks to bonds to commodities are in a sell-off. Over the last five business days, the S&P 500 Stock Index (SPX) has declined 12.52% and for the month since this event started, it is down 29.18% closing today at 2,398.10.

Bonds, traditionally a balance against stock market declines, fell too. Beginning on March 6, the Bloomberg Barclays US Credit Total Return Index started to fall and as of the market close today was down 9% from its recent high. Gold, the other traditional safe-haven, has seen a spot-price fall of over 11% during the same period. All those market declines were dwarfed by the price of oil. West Texas Intermediate crude oil (WTI) closed today at $22.48, down a whopping 63% so far this year.

There is a small bright spot in this darkness. The yield on the U.S. 10-year Treasury note has risen 53.85% over the last five days to 1.180% putting the Treasury yield curve in a decidedly positive slope. There are two ways of seeing this dramatic and unprecedented rise in Treasury note rates. One is that purchasers of the notes are seeing a much better economy a year from now. Another would be that a sell-off in treasury notes is going on. The data suggests that it is the former interpretation that is correct. The WSJ U.S. dollar Index (DXY) has long hovered around 94 but over the last five days has risen 4.57% to 100.89, a startlingly huge move for a currency as massive as the U.S. dollar. Phenomenal quantities of foreign currencies are being expended purchasing dollars. Dollars are not normally purchased simply to hold dollars but rather for the purpose of buying something denominated in dollars. Those purchases certainly do not include oil or other U.S. exports but may be going into purchases of Treasuries. Only time will tell, but it looks strongly like the rest of the world is making a huge bet on the future of the U.S. economy over the next several years.

As we read about the market numbers, the same phrase appears again and again, "The worst market decline in a month since 1987" We well remember the market crash of 1987 as Jeff was a stockbroker about five years in the business. We also remember the fear. It was as palatable as it is today. The issue was, as it always is in market panics, uncertainty. We did not know why the market was selling off other than it was. A best-selling book that fall was "The Great Crash of 1929" and another was "The Great Depression of 1990." There was a serious wide-spread fear that the entire U.S. economy would shut down in a repeat of the Great Depression. In reality, about 18 months later, all was well, and we were in an historic bull market that would go on for the next 13 years. As another point of reference, the stock market fell more than 50% in the 2000-2002 bear market and again in 2008-2009. We survived and went on to prosper after both of those.

Practical Issues

In each portfolio we have typically allocated about 10% of the value, and sometimes more, to "dry powder." That "dry powder" is cash and short-term bonds, which have done a good job of holding their value. In short, we anticipated at some point we would get a bear market and a recession, and probably this year. We estimated the depressed market would last about 18 months on the outside. We set aside reserves in your portfolio to cushion that blow and to provide income for those who needed it. If the downturn lasts longer, historically, even in a market drop of 50% as we had in 2000-2002 and 2008-2009, conservative allocation funds like the ones you own recovered in less than 18 months.

The Economy
We have no way of telling the future. What we can say is that this an externally generated or "exogenic" event. Exogenic shocks historically, including in 1918 when this happened before, tend to be far shorter and less severe than structural failures like we had in 2008-2009. And, yes, this has happened before.

One of the questions we keep getting asked is, "Will this pandemic turn into a financial collapse?" Our answer is, "We really don't think so." We are, if not immune, then at least well prepared for financial crisis. We went through one ten years ago and the potential for that event to sink our ship was an order of magnitude greater than this one. The financial crisis of 2008 took at least five years to resolve itself. We are confident that a year from now we will have a vaccine and will be well on our way to eliminating the coronavirus threat forever. The banks are healthy as are all the other aspects of our economy. What will hurt is that we will see businesses dependent on consumer visits and spending suffer badly.

How long will this last? We believe that in a year we will be well on the way to a universal vaccination. Yes, companies will fold, but the Federal Reserve just committed $1.5 trillion dollars to maintain stability in the financial system and President Trump has asked Congress to provide $1 trillion in fiscal support to companies and individuals. The dollar has been soaring as this unfolds. The rest of the world is betting that we will weather this storm and come out on top.

There will be some rough times, particularly for small businesses, but we have been there before. A big part of that money the president is asking for is earmarked for relief for those who suddenly are without means of support. How well that will work is beyond our ability to predict. We can say that there will be a lot of people who suddenly can't pay their bills, but already the banks, utility companies, mortgage holders, and other creditors are being served notice that slamming people who are taking a hit because of the pandemic is not going to be acceptable.

Everything we know from our education and 37 years of experience tells us that we will see a rebound on the other side that is as impressive as the fear is today. Our study of history reinforces that belief. Among other things, it will probably result in a revamp of the way we pay for medical care. It takes a full-blown crisis to get us Americans moving in the right direction and now we have one. We sincerely believe this crisis marks a major inflection point in our socio-economic history. The America that comes out on the other side will be different, and we think, a better nation than the one that went in.

By the way, the S&P 500 rose 6% on the 17th and the Dow was up over 1,000 points. That kind of move only comes when a LOT of money is buying stocks. For whatever it is worth, that money appears to have come from very deep pockets and organizations that have done some serious, objective calculations about the value of the companies that drive our economy. Does that mean it is over? Probably not. The same irrational fear that has caused mass buying and hoarding of toilet paper is still out there but that doesn't mean hoarding toilet paper is a good investment. In my opinion, the folks who are doing panicked selling are the same ones, at least metaphorically, that are stripping the stores of toilet paper and bottled water.

Last but not least, the market will not drop into a black hole and never come back. This is the United States of America. We have survived much, much worse than a viral pandemic with a 1% to 5% mortality rate. The 1918 Spanish Flu pandemic killed, proportionally to today's population, about 3 million Americans. Our parents and grandparents survived cholera, diphtheria, polio, whooping cough, and smallpox. Each was a pandemic, and each slammed us hard, but the stock market and our economy rode it out and then recovered and grew. This is bad but frankly does not hold a candle to any of those other diseases.

Hang in there. God's peace to all of you.

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