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FIRST QUARTER 2020 ECONOMIC AND FINANCIAL MARKETS REVIEW

We hope this quarterly newsletter finds you well and that you and your family have been safe and healthy during these tumultuous times.

2020 began with a continuation of the 2019 stock market rally based on expectations for improving global economic growth. However, one of the fastest stock market declines in history began in late February due to fears that the spread of coronavirus would significantly harm the global economy. The velocity of the sell-off shattered many records, and the S&P 500 stock market index retreated back to levels first crossed in December 2016. Also, in March, oil prices plunged after a dispute between Russia and Saudi Arabia at an OPEC+ meeting. This sharp decline in oil prices harmed the energy industry and led to turmoil in the corporate bond market due to worries that energy companies could default on their bonds. Due to these issues, the S&P 500 Index finished the first quarter down 20.00%, while the Dow Jones Industrial Average fell 23.20%. The Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index increased by 2.40% during the first quarter.

Corporations had already been navigating through tariffs imposed as a result of the U.S.-China trade war when the coronavirus outbreak began. The spread of coronavirus from China to other parts of the world caused investors to worry that corporate earnings would be downgraded significantly as supply chains became disrupted, certain businesses were forced to shut down, and many layoffs and furloughs occurred. Manufacturing and large events were halted, and consumers spent less on travel, entertainment, tourism, and other goods and services. Stay-at-home orders were issued across the world, further harming the economy. Although the full long-term impact of coronavirus on the economy is still not yet known, the financial markets do not like uncertainty, and the fear of a sudden global recession led investors to sell first and ask questions later.

The likelihood of significant economic damage associated with coronavirus led central banks across the world to take aggressive action to support the global economy. For example, in early March, the Federal Reserve Board issued its first emergency rate cut since the 2008 financial crisis, lowering interest rates 0.50% in one swift move. This was followed by another 1.00% emergency rate cut in mid-March. When the Fed lowers interest rates, they hope to boost the economy by creating an environment where it is easier for corporations and consumers to borrow money and, thereby, spend it. The Fed also implemented programs that were used during the financial crisis to protect the global financial system and make sure that funds continue to flow throughout the economy. In the meantime, Congress passed an enormous fiscal stimulus bill to try to support individuals, businesses, and entire industries.

Throughout history, the stock market has declined in anticipation of recessions. What is different about this stock market sell-off is that it was not caused by fear of typical economic problems that have caused prior recessions, such as inflation or deflation, spiking oil prices or interest rates, currency or banking issues or other financial problems. This has been an event-driven decline caused by a health crisis that turned into an economic crisis. Additionally, the suddenness of this market downturn was unprecedented due to the abundance of instantaneous news and data available to institutional stock traders using sophisticated algorithms and high-speed computers to move the markets at a greater velocity than in the past. However, the good news is that just as the stock market declined in anticipation of a sudden recession, it could also recover quickly once the health crisis is over. Because the economy was strong before the health crisis, oil prices and interest rates have declined significantly, and a massive amount of fiscal and monetary stimulus has been injected into the economy, recovery from this recession could be profitable for opportunistic stock market investors.

In the meantime, we continue to prioritize large-company stocks over small-company stocks. With interest rates on treasury bonds at the lowest level in history, stocks that pay dividends will become essential for both long-term and income-oriented investors. We also continue to believe that political and economic uncertainty is positive for gold's investment prospects looking forward. While this is undoubtedly an unnerving time, our firm has had success during prior crises such as the bursting of the dot-com bubble, the September 11 attacks, and the 2008 financial crisis by not making emotional decisions and using these market disruptions as investment opportunities. Although it is likely that volatility will continue and stocks may even decline further, we believe that long-term investors will have their patience rewarded.

As always, we will continue to diligently monitor ongoing health, economic, political, and financial market conditions. In the meantime, please contact us if you have any questions regarding your investments or the financial markets in general.

* *Index returns were obtained from the Wall St. Journal and Bloomberg Barclays on April 1, 2020.*