Market View

April 2020

Stocks suffered severe declines during the first quarter as the new coronavirus, Covid-19, spread in China, Iran, Europe and then the US. With "social distancing" as the primary method of fighting the spread of Covid-19, economic activity slowed markedly in the affected areas. No one knows how long it will take to stop the spread of the virus. The medical, research and financial resources of the US and other major nations are focusing on increasing testing, developing treatments and a vaccine, and providing financial support for individuals and companies affected by the economic downturn. The exact course forward is uncertain but we remain convinced that Covid-19 will be contained and eventually eradicated.

STOCKS IN A BEAR MARKET

The US stock market began 2020 with a series of advances supported by good economic news from the US and early signs of economic reacceleration in Europe. That changed by late February as Covid-19 quickly spread to Europe and began to threaten the US. The threat was initially believed to be minimal. That assessment changed rapidly. By mid-March, US states and cities began to limit public gatherings. Although many individuals are now working from home, many people cannot work virtually. The overall impact on the economy will be substantial, but may be short-term.

During March, US stocks fell across the board with smaller company stocks and value-oriented stocks suffering some of the largest losses. Stocks in the financial and energy sectors, where we have limited holdings, were hard hit. Travel-oriented stocks—hotel companies, cruise lines and airlines—also suffered. Day-to-day volatility was unsettling and the decline very rapid. By mid-March, the S&P 500 had lost more than 20% from its high achieved on February 19, entering a bear market. Stocks hit a low point on March 23, down almost 31% from the start of the year. From that low, stocks surged more than 15% to the end of March. Such volatility is abnormal and can be disturbing. We suspect above-average volatility will continue for some time.

Market Indicators		3/31/2020
TOTAL RETURN		
US Stock Markets	12 Mos	1st Qtr 2020
S&P 500 Index	-7.0%	-19.6%
S&P 400 Mid Cap	-22.5%	-29.7%
Russell 2000 Small Cap	-24.0%	-30.6%
Int'l Stock Markets		
ETF Returns in US$		
EAFE Index (Europe, Australasia, Far East)	-14.9%	-23.0%
Japan (MSCI Index)	-7.8%	-16.6%
China (Xinhua 25)	-12.8%	-14.0%
Emerging Mkts Index	-18.2%	-23.9%
US Fixed Income Yields	12/31/2019	3/31/2020
6 Mo US T-Bill	1.60%	0.15%
2 Yr US T-Note	1.58%	0.23%
10 Yr US T-Note	1.92%	0.70%

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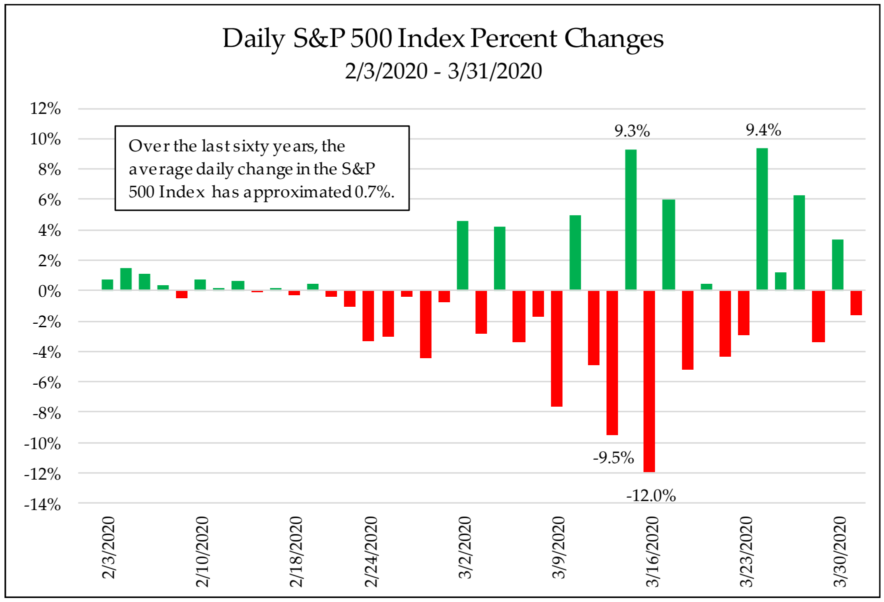
WHAT NEXT FOR THE ECONOMY?

Efforts to fight the spread of Covid-19 are having a big impact on economic activity. Almost three-quarters of the US population is under a stay-at-home order. The spread of the virus and the measures to limit its spread will affect economic growth. Many economists think the US economy may shrink for two quarters, which is the common definition of a recession. The timing and rapidity of the economic recovery will depend on the timing and nature of the containment of Covid-19's spread. In many ways, the worst case would be a premature "all clear" signal that leads to a second wave of infections.



Eventually COVID-19's spread will end. New cases in China are declining and economic activity is increasing. Although a long-term effort, researchers are working on treatments and vaccines.

The CARES Act, a $2 trillion Covid-19 rescue package, was signed into law near the end of March. The act offers financial aid in various forms to individuals, small businesses, large corporations, state and local governments, healthcare providers, and educational institutions. The $500 billion targeted for large corporations will be structured as loans that must be repaid. To put the act's size in context, $2 trillion is more than half the estimated 2020 Federal Government revenues of $3.6 trillion. Looked at a different way, $2 trillion is almost 10% of the value of all goods and services produced in the US in a year. The CARES Act is intended to provide short-term financial relief to those most affected financially by the battle against Covid-19. Congress has already begun work on another multi-trillion dollar financial package aimed at stimulating future economic growth.

US TREASURY INTEREST RATES FELL

US government interest rates hit historic lows during the quarter. The yield on the 10-year Treasury ended at 0.70% compared to 1.92% at the beginning of the year. Along the way, it temporarily fell below 0.50%. This happened as the US Federal Reserve Bank, in coordination with other major central banks, reduced short-term interest rates to near zero and announced the intention to buy certain longer-maturity bonds.

Yields on most investment grade corporate and municipal bonds did not decline during the quarter as investors feared a rise in potential defaults due to economic stress. The yields of most high yield (junk) bonds increased significantly as investor's perceptions of highly leveraged companies dimmed.

INVESTING FOR THE LONG TERM

The fight against Covid-19, the resulting economic effects, and unprecedented government financial stimulus have disrupted stock and bond prices. Dramatic stock market volatility, likely caused partly by computer-driven trading strategies, has unnerved many investors. We suggest the events of the first quarter will have almost no long-term impact on the underlying value of most quality companies. Stock prices will likely experience more periods of volatility in the months and quarters ahead. We remain convinced that a disciplined, long-term orientation emphasizing the stocks of quality companies will continue to produce superior risk-adjusted returns over most investment horizons.

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