



CONWAY • JARVIS LLC

Investment Outlook

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Update

In our Investment Outlook of this past Monday we addressed the recent return of volatility to the markets and discussed how the COVID-19 event has been the catalyst for what was, at the time, a correction in the stock market. A mere three days later, we're now writing about the end of the record long bull market as the S&P 500 and NASDAQ joined the DOW in bear market territory this morning. In these past few days, we've seen the COVID-19 epidemic declared a pandemic and the response has been predictable. Public gatherings such as concerts and sporting events have been cancelled, schools and businesses closed, and travel restricted on a broad scale. All of these comprise a rational response designed to arrest the spread of the virus. All will impart a tangible effect on the economy and not a good one.

In Monday's posting, we rated the risk to the economy from the COVID-19 event as "Significant". With this week's developments, we raise that level to "Extreme". We speculated that this transitory event, while disruptive to the markets, wouldn't trigger a recession in the US. Seeing the global response, we now believe that a US recession of brief duration could be more than just a possibility. It's probable that we'll experience one quarter of contraction in GDP. Whether we see a second one depends on how quickly the cycle of this event is completed. Looking to the Far East, the *reported* rate of transmission is declining. We could expect to see that here in North America, given the breadth and depth of this week's response from authorities and healthcare providers. While the threat to public health from the virus can be expected to diminish as a result of these measures and the passage of time, the effect on the economy remains to be seen.

In terms of economics, this event could turn out to be, in hindsight, one of those cases where the cure causes more damage than the disease. Unfortunately, we don't have the gift of hindsight in making real-time decisions and are left with responding to what we guess could be the worst case outcome, an unchecked spread of the virus on a scale that would rival the Spanish Flu pandemic of 1918. We're encouraged to see this response to the virus on such a broad scale. The sooner the rate of transmission abates, the lesser impact on the economy.

What should clients do? Don't just do something, sit there. That's what we recommend for those who have their income and liquidity needs met for the next 12-18 months. The vast majority of clients who have reached out to us want to increase their exposure to equities during this downturn. That time will come, but not before we see the news cycle go from negative to neutral. We'll settle for scaling in cautiously to attractively priced issues in the coming weeks. Unlike a cyclical downturn, there's significant risk in attempting to call a bottom in an event-driven bear market.

Believe it or not, there is some good news. This should be a transitory event of relatively brief duration. It threatens a cyclical slowing of the economy and not a structural collapse as we saw in 2008. Fortunately, this happened at a time when the US economy was surging and the global economy

regaining momentum. In many respects, this looks similar to 1987 where an overreaction by the stock market to exigent circumstances triggered a very brief recession. As of today's close, this decline remains less than that of '87 and nothing like what occurred in 2008.

We've repeatedly cautioned that making a dramatic shift in asset allocation in times of extreme market stress will disrupt progress toward meeting long-term investment objectives. This is one of those times. For clients who need to raise cash for liquidity needs, the best sources for that are bonds and money market funds. Liquidating stocks at this time simply locks in low prices and, unless one is leaving the market for good, raises the probability of returning to the market when prices are much higher as some did following 2008.

We'll be updating you periodically as the event and its news cycle runs its course. Please don't hesitate to reach out with questions or for assistance and hand-holding.

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