Covid Response

Friday, May 08, 2020

As mentioned in our prior newsletters, many snakes laid beneath the grass. Throw a COVID-19 impact on top of debt laden society with a previously slowing economy, and it looks like the Indiana Jones moment when he learned that Asps were an entire roadblock between him and the ark of the covenant. I remember back in second grade proudly telling my teacher, that an “a-s-p” was a word in a word-jumble exercise. “It is a venomous snake”. But she wasn’t buying it. Luckily, during recess, my principal, Sister Trudy, and Miriam Webster both bailed me out. But no number of bailouts and packages will save us from economic issues that lie ahead. Essentially, Trump wants nothing more than to seize the ark from Indy and be declared the winner. Neither side of the far left or far right will win. Globally could be even worse. Only hard work, innovation, and better communication while buckling up through some serious snakes will get us out of this.

- This health crisis struck us at a vulnerable moment, at a time when the economy was slowing (contrary to popular opinion), earnings had already peaked in 2018, the Fed was already out of ammunition due to rate cuts, and stocks were at elevated levels.
- Yes, we are in a recession. 30 million have now filed for unemployment in 6 weeks since this crisis1. As a barometer, that number was 25M for ALL of 2008 during the financial crisis.
- Central Banks Monetary Policy – Actions are meant to build a bridge, not prevent a recession.
- Fiscal Policy Action - The Federal, State and Local Debt was an issue prior, and is now a head-spinning headwind. Just wait for more stimulus, along with added money allocated towards issues that were not addressed prior.
- Clients must have yearly buckets of income out of, or protected from stock exposure. This is not a time for added risk. Investors should be mindful of tax implications, risk management, and estate planning strategies in conjunction with portfolio.
- Financial Crisis vs COVID-19 Crisis – Credit issue vs liquidity issue that we do not want to turn into a permanent solvency issue. They rhyme but are different. Bankruptcies will begin soon.
- V Shaped Recovery – Probably Not. Although with the market and Fed, anything is possible, short term. Recessions and reversions normally take much longer than 22 days. We are likely not out of the woods and this could be just the beginning.
- Opportunities – Some of our investment partners were net buyers in March on an extremely selective basis. With markets more expensive again just weeks later, that is unlikely in this current condition2. On the other hand, Warren Buffett still has a historically large cash position as of May 2nd and did not net buy during the recent downturn.
- Populism - Everyone wants more for less. The administration will do anything to prop up this market, forsaken the financial health of the future. Blind followers of the far left and far right are ultimately more alike than different, and immune to listening and learning. Those in the middle suffer. Brexit, China’s continued actions i.e. abolishing term limits, the platform of the far left or the Tea Party, President Trump’s encouragement of rallies during a health crisis, etc. are actions that serve as inflection points in a growing de-globalized and polarized world. This ultimately could be one of the larger headwinds we face socially and economically.

- We own a small sleeve of gold inside of a few First Eagle positions that serve as a hedge against future uncertainty, not a bullish call on gold
- Brace for further volatility and more concerning economic data. We are not convinced that the market has priced this in fully.

While we're hopeful for a swift return to normalcy—understand that economies are based on people functioning together. Second, markets are emotional. Very. We will get through this as mentioned, but it will hardly be easy.

Investors must be mindful of the difficulty of this transition and volatility that is likely in store moving forward. March could be the tip of the iceberg. As intelligent creatures, the need to adapt will be more important than it has been in many of our lifetimes. The coming months could be much more difficult than advertised, especially for those that are strolling along through life with what feels like supreme job security. The landscape will change in governments, healthcare, at the corporate level and especially those in lower income jobs.

You can't give up on equities long term because the Fed could prop this up even more…. short term. I trust our investment partners and our experience in navigating this very rough patch we are now embarking on. If there was no external intervention, this stock market would look much different. And it could at some point regardless.

But this country has been through much worse and our society today is much better than it was 100 years ago or even 40 years ago. The divide and some of the complexity is greater, but the problems that feel worse today, are not.

Stay safe and positive.

Sources: 1- WSJ April 2020, 2-Astor Dynamic Allocation April 17, 2020