BULLS&BEARS

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Great Repression

In the history of financial markets, there has never been a quarter like the first quarter of 2020. As the global outbreak of COVID-19 gathered force, various forms of lockdowns and quarantines ensued, causing risk assets to plummet at an unprecedented pace. The severe measures taken by governments across the world ensure that a recession is currently underway. The depth and duration of the slowdown is as yet unknown. To make matters worse, Saudi Arabia and Russia's failure to agree to oil production cuts amid a drop in global demand only added to the volatility as the oil prices plunged. While a raft of monetary and fiscal policy measures around the globe have lifted market performance, global equity returns remain negative for the year and U.S. Treasury yields remain near historic lows.

Recovery Letter

There are likely three potential paths forward from the sharp economic decline we have just experienced: an equally sharp V-shaped recovery bounce back by summer; a Great Depression-like era L-shaped economy and market that's too devastated following the initial collapse to recover for a decade or more; and a U-shaped recovery that portends a rocky but relatively short period of slow and choppy growth this summer and fall before starting a more sustained advance a year or so from now.

Our expectation is for the recovery to resemble the U-shaped recovery. In our base case, the virus peaks in the U.S. in May or June and subsequent outbreaks are contained as lockdowns are lifted. Unemployment rises through 15% before reverting gradually, and the U.S. economy finishes 2020 6% smaller.

If history is any guide, the stock market is in for a bumpy ride. To reach a sustainable recovery, stocks need the government's fiscal and monetary stimulus to prove effective. The search for medical solutions must yield results. And the reopening of the economy must proceed, necessarily in fits and starts

Inflation or Deflation

The record $2 trillion stimulus bill designed to offset the negative economic impacts of COVID-19 is being funded by a record issuance of short-dated debt at historically low rates. The $319 billion of Treasury bills supplied has already far exceeded the $190 billion provided during the global financial crisis. This extra supply hit at the same time companies and investors, looking for cash, pulled money out. This forced the Fed to step in, currently buying $50 billion in Treasuries per day across maturities (down from $75 billion per day in mid-March). The Fed has already far exceeded its previous record for monthly purchases and has brought some normalcy back to the Treasury markets.

This large amount of stimulus and quantitative easing has influenced one of the main questions that we've been fielding from our clients concerning high inflation due to all this debt. This is a very valid concern, but at this time deflation is more of a concern than inflation. We believe that though we might experience some more normalized, near 2% inflation over the medium-term, deflation will be the longer-term concern. Similar to what we've seen in Japan over the last 20 years, aging demographics, reduced immigration, technological advancements, etc., will keep rates and inflation low over the long-term.

Please contact us at 1-855-829-7192 if we may be of assistance.

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Market Indicators

3/31/20 Year-to-Date Change	
S&P 500	-19.60%
NASDAQ	-13.95%
Russell 2000	-30.61%

Interest Rates	3/31/20	9/30/19
10-Year Treasury Note	0.68%	1.67%
3-Month Treasury Bill	0.13%	1.83%

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