Weekly Investment Strategy

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Key Takeaways

- ‘Bearing witness’ to unprecedented volatility
- The fed ‘bears a hand’ in stabilizing the economy
- US consumers will eventually ‘come out of hibernation’

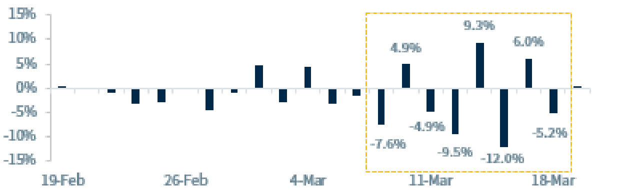
The economic and financial market carnage of the coronavirus continued in yet another unbearable week for investors. The S&P 500 suffered its worst daily decline since October 1987 on Monday, and has fallen ~30% from its February 19 high—the fastest decline and entrance into bear market territory in the history of the US equity market. ‘Bear in mind’ this level of volatility is unprecedented too, as we have seen eight consecutive days of 4% swings in the market for the first time ever. But despite these chaotic movements, we are ‘bearing witness’ to a national, collective effort to ‘come together’ in this time of need and overcome not only the virus but its subsequent impact on our economy. ‘Bear with us’ as we explain why this effort by policymakers, US corporations, and consumers to confront the coronavirus is the reason why we remain optimistic longer term.

- **Fed Action ‘Bears Testimony’ To Their Promise To Act |**The Federal Reserve (Fed) was among the first to act, announcing two interest rate cuts during emergency meetings to reduce rates to zero, implementing trillion dollar facilities to ensure the proper functioning of the commercial paper and credit markets, and undergoing significant overnight repo operations. This week, the Fed ensured the backing of the US money market fund industry when prime fund redemptions began to rise and launched a program for currency swaps with nine other global central banks. While it appears the Fed’s scope of policy measures may be nearing its limits, we believe it will expand its balance sheet and possibly expand the scope of its purchases to include both corporate and municipal bonds. No matter the measures taken, our belief that the Fed will remain proactive and continue to ‘bear a hand’ in ensuring the stability of the economy and financial markets is unchanged.
- **Corporations Help ‘Bear the Brunt’ Of The Impact |**President Trump invoked the Defense Production Act (DPA) primarily to speed up domestic manufacturing of medical supplies and personal protective equipment needed to combat the virus, but some industries have voluntarily offered to allocate their resources toward alleviating medical device shortages. While there appears to be urgency in finding a vaccine and treatment to truly curtail the virus, the actions by multiple US corporations this week are heavily geared toward mitigating the threat that the COVID-19 pandemic places on our overwhelmed medical systems. While it is up to citizens to practice social distancing, the actions taken by these companies to assist what could quickly become overloaded hospitals, is evidence of the collective effort to curb the detrimental health impact of the virus.
- **Consumers Will ‘Come Out of Hibernation’ |**While we ‘cannot bear to think’ of the lives lost in the US and abroad, there is hope that through social distancing, each citizen can contribute to limiting the spread of the virus. State and local governments have specifically instituted rules and guidance to reduce social interaction over the next two weeks at a minimum; statistics surrounding miles driven, restaurant traffic, and school closings suggest Americans are taking this advice to heart. While these actions are critical in combating the virus, it is not any less difficult to see the impact on the US economy. This week, retail sales posted a -0.5% MoM decline, and initial claims rose to 281,000—the highest level since Sept. 2017. Since these unemployment claims are as of March 14, it is likely claims will dramatically increase next week. However, there is a ‘light at the end of tunnel’ as our Health Care Analyst Chris Meekins estimates a 70% probability that we will “turn the corner” by Memorial Day. If this occurs, there is potential for a robust economic rebound in the second half of the year as US consumers return to stores (possibly with government cash in hand) and as businesses begin to rehire their employees.

CHART OF THE WEEK

More Volatile ‘Than The Average Bear’ Market

Not only was this the fastest decline into a bear market, but it has also been the most volatile, with the S&P 500 experiencing eight consecutive days of 4% swings for the first time.



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