DECIDE AGAINST FEAR

SPECIAL MARKET COMMENTARY

March 16, 2020

Sunday evening, the Federal Reserve took unprecedented action – even compared to that of the 2008 financial crisis – with a 2nd emergency cut of the federal funds rate to 0%. This drastic step spooked markets, with futures pointing to a decidedly negative start. The implied opening on the S&P 500 is now trending near -10% as of 8:00am. News flows have been fast and increasingly alarming over the past several days. The Johns Hopkins Center for Systems Science and Engineering (CSSE) live tracking website reports 3,813 active COVID-19 cases in the United States, as of 10:30 this morning.

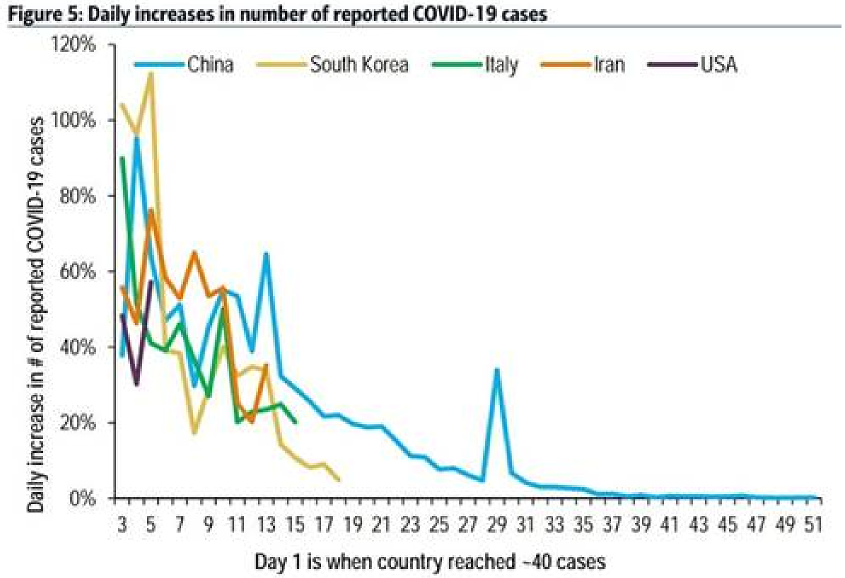
Market Conditions: Despite Friday's massive market climb that brought the S&P 500 **9.3%** higher for the day, the S&P 500 has now fallen **23%** from its recent high. The Russell 2000 Index of smaller companies rallied nearly **8%** on Friday, yet still sits **30.5%** lower than it's all time high. In other 'hedging' investment categories there are losses too: Gold fell **9.4%** for the week and is now flat for the year, while Bitcoin has fallen **49%** since January 1st. The yield on the U.S. 10 Year Treasury Bond also fell to close at an all-time weekly low close of 0.96%. A diverse set of asset classes falling in sympathy and today's frantic open (even after supportive news on Sunday) is a symptom of one thing: overt panic.[1]

Such extraordinary volatility, coupled with increasing correlation among asset classes, compares only to that seen in 1929, 1987 and 2008 (a most unholy trinity of years from any investors standpoint). Such extremes remind us of the wisdom of Warren Buffet: *"Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold. When downpours of that sort occur, it's imperative that we rush outdoors carrying washtubs, not teaspoons. And that we will do."*

Early last week, we were buyers through the heat of the most volatile markets we've seen in a decade. NLFP Core Model Portfolios were rebalanced on Monday, March 9th, adding 3-4% in equity index funds. Later in the week many purchases and tax-loss swaps were completed in Personalized Asset Management Accounts (PAMAs) as well. We will continue to keep our washtubs at the ready, evaluating further action.

COVID-19 Observations: By day 40 of the outbreak in China new coronavirus cases hit a growth rate of approximately **0%** (see inset chart, the U.S. is the black line.) I believe the likelihood of a similar or stronger containment pattern in the U.S. is high and that within two to three weeks the narrative about the pandemic may shift dramatically. Despite the number of currently reported U.S. infections (~0.001% of the population), Dr. Marty Makary of Johns Hopkins has warned the actual number of those walking around with the infection could be between ***50,000 and 500,000.*** The uncertainty at this time is real.

Figure 5: Daily increases in number of reported COVID-19 cases



Source: Bloomberg, Wikipedia, BofA Global Research

Be encouraged that the extreme change of U.S. public opinion in the past week has fueled a boost of hypervigilance that China never enjoyed this early in their outbreak. In fact, the coronavirus ran unchecked there for a full month. After Chinese President Xi Jinping ordered the outbreak to be controlled on January 7th, authorities kept denying that it could even be spread between humans. They *then proceeded* with the Chinese Lunar New Year banquet that involved tens of thousands of families in Wuhan on January 19th. Despite this disastrous response, 'Day 40' containment appears to have been achieved. We don't have the tools of coercion in a communist nation at our disposal that China used to arrest their outbreak. I do remain optimistic that with the power of free will, rational thinking and some healthy fear, the U.S. can fare that well, or perhaps, much better.[1]

The rise of COVID-19, which started as a crisis in epidemiology, has evolved into an economic one, at least temporarily. However, exogenous (coming from outside the system) shocks are very different than economic shocks that erupt from fundamental fractures within the financial system. Exogenous shocks also typically result in more sudden downturns, which can feel especially alarming. Fortunately, the current market turmoil began with both companies and consumers in excellent financial health. Lower energy prices can be a boon to consumers and help power a potential economic rebound, but only *if* they are able and willing to get out and spend their energy savings.

Today we are in a situation with unparalleled risks and unknowns. A virus is the stuff of mystery and fear, an invisibly lurking danger ready to spread explosively around the globe. It's unquantifiable and that wears on the human psyche in a way that rational facts can't.

For me, the only reasonable comparison to what we are experiencing today and over the last week is the post-September 11th, 2001 trading markets. Sitting in my Morgan Stanley office, then as a third-year associate, I came ready with a list of clients who could invest cash the first morning the markets re-opened on the following Monday, September, 17th. I clearly remember the 1,000-yard stares of many of the veteran advisors in that office as the market opened down 7% with America in chaos.

Some said, "This will get worse." Many said, "This time it *really* is different." I've heard both of those phrases more than a few times in the last week. The doomsayers were wrong then. I believe they will ultimately prove wrong in 2020 too. As more virus data and stable price information become available, calculus and patience will once again be rewarded. Interest rates have been cut to all-time lows. The earnings and dividends of U.S. companies – even if a recession proves a necessary part of the cure for an epidemic of communicable disease – will *tower* above bond rates. I believe a sober look at the strength of the U.S. health response compared to China's is a calming reality that is being overlooked. I also have seen the power of human ingenuity and perseverance overcome dark obstacles.

Consider these factors. Decide against fear.

H. Robert Bradley, CFP ®, CIMA®

Partner, Chief Investment Officer

NorthLanding Financial Partners, Investment Direction Committee

1. Sources Include: The Market Data Center of the Wall Street Journal. The Washington Post, 3/11/2020, "For Useful COVID-19 Testing, We Need to Think Outside the Box — and Outside the ER." WSJ – "China's Early Missteps Fed Epidemic 3/7/20." The Hill, 3/14/2020: "Johns Hopkins professor estimates at least 50,000 people have coronavirus in US." Center for Systems Science and Engineering (CSSE) at Johns Hopkins University.