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March 25th Call Recording- Weathering the Coronavirus Market Downturn

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Darcy O'Brien: [00:00:00] Good afternoon. And thank you for joining us for this afternoon's live call weathering the coronavirus market downturn. My name is Darcy O'Brien and I'm the chief marketing officer at Simon quick, and I will be moderating today's discussion. Given the increased market volatility, our chief investment officer and managing partner, Chris Moore, and our head of investment research Wayne G and I are going to host weekly market update calls for the foreseeable future until markets stabilize. Please note that there will not be a visual component to this call. However, as a participant, you can submit questions through the Q and A function on zoom. You may also submit questions by emailing me at dobrien@simonquickadvisors.com.

Now, before I dive into the questions, please note the following disclaimers. This presentation is for information and discussion purposes only. Please remember that past performance may not be indicative of future results, and there is no guarantee that the concepts and ideas discussed during the presentation will be profitable or proved successful. And now let's dive into the questions. The first one comes in from Jennifer. What does the newly announced stimulus package mean for market? It seems like there was a rally as a result, but is that a short-term effect or do you expect it to largely offset the economic impact of the Corona virus?

Chris Moore: [00:01:37] Thanks Darcy. This is Chris. I'll start with that one. About two weeks ago on our weekly market update call, we stated that the markets and the economy needed a lifeline to get us through the next 90 days or so while the country fights the coronavirus. This stimulus package combined with prior fiscal and monetary initiatives will be that lifeline until we see more data around the spread of the virus total depth and real economic impact. So, to answer the question, it's too early to tell it's too early to tell if this will be enough, because we don't have enough data about the economy until it's realized. And to date the economic impact has largely been projections based on a very wide range of assumptions of future outcomes. I have to give Congress and the treasury credit for acting quickly. US GDP in 2019 was a shy over $21 trillion. So, a $2 trillion stimulus package is close to 10%, injection into the economy. Secretary of treasury Mnuchin fortunately has a background in financial markets, a significant background with experience that Goldman Sachs, head of mortgages, government, securities, money markets, and other significant fixed income markets across the globe.

He then went on to work for several hedge funds and, has experience across a broad range of asset classes and knows potential impact, that this virus could have to financial markets and the economy and was willing to, to act aggressively, quickly. The stimulus package was from what we understand as of right now, based on early kind of reports of, of what's in the package was pretty well thought out. It does address a lot of the holes in the economy, whether or not it's going to be enough, we don't know yet whether or not it will be enough to support financial markets. We don't know yet. It certainly is helping based on kind of the market's response yesterday and today. Just to highlight a couple of points that were addressed in the package, you know, cash to consumers, you know, we were concerned about how the consumer was going to weather the next 90 days. You know, without a job without steady income, how are they going to support themselves? So, there is going to be immediate cash to consumers and families. There's a small business package of roughly $350 billion. There's another 500 billion in corporate aid and a hundred billion to healthcare providers that are struggling to keep up with the demand. Additionally, there's about $16 billion in the package, to address the shortfall in medical equipment, whether or not that's enough or it'll be implemented quickly enough to get supplies where it's needed still be determined. And then lastly, 150 billion going to state and local government. So, the stimulus package certainly addresses a lot of the shortcomings, in the, the economic impact to the economy, from the fallout of the coronavirus, whether or not it will be enough, we don't know. Only time will tell. Hopefully, this is, some support to the downside for market until more data comes out. And then we'll see from there, if there's further stimulus, you know, this was kind of categorized as phase three. We don't know if there'll be additional phases after this or not.

Darcy O'Brien: [00:06:21] Thank you, Chris. Our next question comes in from Collin. And he says, how many days in a row of normalcy IE market movements, less than 2%, would it take for us to believe volatility is behind us? Are we looking at the VIX to drop below a certain level?

Wayne Yi: [00:06:40] This is Wayne and I'll comment a little bit around that. I don't think we hold out of the markets, or we delay participating in the markets until things normalize. I think when volatility falls down and I'll touch on oscillations as well, but when levels are lower, the markets are benign and probably roaring. When we look at the VIX as the main indicator of kind of let's call it fear or concern around the markets. We're at 2008 levels, we were at 2008 levels, we have in that 80 context. Right now, we're in the 65 contexts and my assumption is that that will continue to trend lower, but it doesn't just kind of fall back down to the 20ish level that we were kind of prior to all this. But in periods of volatility, that's when there is a lot of, kind of liquidity concerns and fears about market and uncertainty, where there are really attractive, cheap options out there. And because of that, it is in these moments that you kind of need to have a game plan to be deploying capital. That's where we see opportunity within equity amongst other asset classes. But we don't sit here waiting for a technical measure, like VIX or kind of daily oscillation solution to say, alright, this is the better time versus not, cause if I'm looking historically, I'm looking at September the fourth quarter of 2008 and the VIX was anywhere between 55 and 80 in that period. And those

are high numbers. And then the market really kind of, kind of hit its lows in March of 2009. And even then, the ball was around in the 50% - 60% area. And from that perspective, continue to grind tighter to the thirties, to the twenties and that essentially took all of 2009 to kind of get there. So, we are not going to avoid the markets for a year. but in this volatility, it does create opportunity within the discrete parts of the markets across equities, across fixed income, across credit. And we are seeking to maximize the opportunity, for, in the most kind of, for the lowest amount of risk available. We think the market's heading that way, to Chris's earlier comments about, the fiscal stimulus package to 2 trillion, 2 trillion plus is big. the GDP is this is about 10th of the GDP annual GDP of the country. So, it doesn't solve for, the entirety of the losses that will probably take from a GDP for a production perspective, but it does mitigate a lot of the downside in the next quarter.

(9:23), But on top of that, the liquidity that's getting pumped into the system, kind of even prior to, the fiscal program, that's tremendous as well. And kind of, it's hard to put an exact number on it, but let's call that anywhere between four or five trillion dollars of, monetary support through the fed and what that really provided was a level of stability because the market started cracking, even more so than what you saw in equities, because there was an uncertainty around whether the, the, the financial plumbing was working in the system.

And I think the fed reacted really quickly in with, a heavy hand to make sure we put out everything possible, all the levers turn on all the levers to make sure that. Liquidity was there so that things like municipals or even treasuries high grade, AAA corporate, or credit, securities, that those parts of the market are still functioning so that you can reestablish pricing across the board.

So, highly long-winded. but in the sense that we, while it's, it's scary to invest when the VIX is at 80, we're coming off of those peaks, and currently there's much more rationale, kind of rational investing, definitely at lower levels, the more rational two way flow, across asset classes.

And I think that is where there's better price, discovery, and opportunity to participate in on the, just looking at the S and P the up and down. Two days up coming from two days down, coming from every other day, being up or down North of 5% or so, like, those are some dramatic moves where I think those days, I wouldn't say are completely behind us, but there they won't be as consistent or persistent as what we saw over the past month.

So yeah, this is the opportunity to be deploying across, across asset classes and more, I think we'll probably touch on that a little bit as well, down the line.

Darcy O'Brien: [00:11:25] Thank you, Wayne. And you are touching on the subject of our next question, which comes in from Joaquin. He asks if I'm not ready to move into equities, what other opportunities have developed as a result of the market?

Sell off that look interesting.

Wayne Yi: [00:11:44] Yeah, everyone looks towards the Dow and the S&P. He has had like the, the main ways to make money in capital markets. And I think it's, it's easy, It's easy to

grasp, not to say that investing inequities is easy, but you get it. There's a company out there. Do you like the company?

Do you think it's going to grow and are you buying it at a cheap enough valuation that it makes a, that you're going to get compensated for owning that stock, but equities are just kind of one component of the market and it's probably the most volatile taking away derivatives in traditional securities.

It's the most volatile, segment of the market and yeah. Even in normal periods, kind of over the long-term volatility around the S and P is in the mid-teens, so highly volatile. But what we saw this time, this time around, on the back of the equity market, selling off the freezing of the fixed income markets.

And, identified points back to some of the comments I made about, you know, liquidity in the financial system where. People are, yes. There's some concern around banks that just make sure that banks are going to capitalize appropriately to weather the fundamental cause of the recession. But there was concern of whether or not the bank could even meet its obligations I thought this whole concern about run a run on the banks, can they hold, can they protect against that?

And as markets are selling off pretty violently, that's where the risks are coming in. Now that's where the perception of risk started coming in. and what you saw, you saw huge dislocations across pretty much every asset class, right? Like fixed income. Now we had 150 basis point cut in rates, charge you is even lads that move.

And then when you be moving just one step further from treasuries, unis, municipal bonds gapped out significantly, and unis, I get it uni municipals aren't as safe as treasuries, but they're probably the closest thing, after that, or that's what agencies and then municipals. So. Even in the safest, kind of top of the kind of, kind of safety spectrum, these things really got down.

Not because people thought there was a lot of fundamental risk or credit risk, but because the markets froze, there are more people looking to sell than there were looking to buy. And they just wanted to have the safest asset, which was at that point or at the current point is us dollars or cash that you're holding, in the bank or are gonna in, in actual denominations as opposed to anything that's like in the market. So that's why you saw municipal bonds sell off dramatically despite, treasuries and, and the ag tightening, that's where you saw municipal even money market funds, another whole concern around the, the, the viability of money market funds and kind of protecting the dollar, and I think this question was brought up, last week as well. But what you saw from the, from the fed was all the different kind of liquidity measures, and, and sources of funding to kind of stabilize that market. from a money market perspective from a, even from a corporate perspective, that created a lot of stability. And we're seeing that the benefit of that right now, those are probably less dramatic on an absolute basis in terms of the return opportunity where a stock could be up 50%, if it was down 50%, and those are real dollars that work but then in, municipals being out at 5% yields when they should be at two, under 2% yield.

So, and you're not taking fundamental risks. I think those are certain areas of the market, which are really interesting. you're seeing it in closed-end funds, which same thing you're, you're looking to just collapse the discount on what things are trading at versus what the, if the price of the underlying are the price of my assets.

So, that's really interesting as well. And then obviously on the flip side, those that want to avoid equities and think that the market's going to get worse from here. Distress is finally kind of picking up again. People were starving for distress opportunities and every now and then you had a PGNE or maybe the energy sector, but we're going to see some wholesale kind of restructuring in this environment because some of our earlier comments, the fiscal response is a mitigant.

It is, it does not fill the hole. there still will be a hole. It just won't be as deep, or the expectation is that it won't be as deep, but there still will be a lot of businesses that will have to restructure in this environment. The assets might survive, but there'll be a changing of hands and the restructuring and balance sheet.

And that's another opportunity. So distressed investing, being counter-cyclical to equity investing, that is a, that's an opportunity. So, we see significant opportunity even without touching, kind of your traditional equity markets. So yeah, there's a lot of stuff to be able to talk about.

Darcy O'Brien: [00:16:39] Thank you, Wayne.

The next question was emailed in ahead of time from Jerry and he writes, it seems like there are a lot of question marks still out there regarding market. What can clients do proactively to put them in a better financial position going forward?

Chris Moore: [00:16:59] This is Chris. I'll take that one. I'm not going to take any credit for it though because our client advisor team, put together the answer for this one and wanted to share it with the group. the client advisors have been working their tails off over the last couple of weeks, in response to client questions and proactive planning. So, there are a couple, a couple strategies that advisors are talking to clients about right now.

This first one is definitely not a favorite of investors, but it's tax loss harvesting, which essentially selling an investment because it's down, you've lost money on it. I'm realizing the loss for tax purposes and then reinvesting in a like investment. for example, selling the S and P 500 ETF and buying the Russell 1000 ETF.

You can take the loss through the sale and offset it against future gains carries forward, for many years in advance. So, you can use it when you have gains in the future. the second, the second item on the list is Roth conversions. Or basically if you have an IRA, you have gains in the IRA, you can at this point, probably those gains are minimal. You can convert your IRA to a Roth IRA. and then the growth going forward would not be taxable to the investor because it's in a Roth IRA instead of a traditional IRA. The third item is refinancing or lowering mortgage rates. and you know, with rates moving down as significantly as, as they have over the last couple of weeks.

This is a great opportunity for you to be thinking about refinancing your mortgage and locking in lower rates. In fact, activity has been so strong in that area that some banks, haven't reduced their mortgage rates enough, just to kind of slow the refinancing pace cause they can't keep up with it, we do think this is a great opportunity to lock in. Ultra-low rates here, with the fed pushing rates down to zero. So that is something we've been working on for clients. The last is reviewing your estate plan, especially if you're, thinking about ways to pass assets down to future generations, with asset valuations, depressed significantly here.

Both public and private. It's a great time to be thinking about, grats or other charitable trusts as a way to get assets that you think will appreciate going forward prior to your death out of your estate the key is always the valuation on those gifts. So now is a perfect time to be capitalizing on much lower valuations so that your gifts can have as great an impact as possible. If you want any additional information on any of those strategies, please do not hesitate to reach out to your client advisor team. We are here to help.

Darcy O'Brien: [00:20:25] Thank you, Chris, and shout out to our client advisors, for supporting clients these past couple of weeks. For our participants on the line, we have one question remaining in the queue right now.

So, if you have any questions that you would like to have answered during today's call, please go ahead and submit those. The next question comes in from Joe, the unemployment rate over the next couple of months, it's supposed to rise sharply. What impact do you think that may have on markets? Once unemployment rates jumped dramatically in early April and then in May? Has the market price in these expectations.

Chris Moore: [00:21:08] I'll start, and Wayne can jump in. I would say the market has definitely priced in a significant spike in the unemployment rate. to what degree it is really unknown at this point, but, you know, the ranges of expected unemployment, are, I've seen as low as. Seven and a half unemployment, 10% unemployment, 20% unemployment, there are some pretty extreme projects out there. I think it's probably a good thing that a lot of the projections for both unemployment and decline in GDP are extreme in many cases because it lets the market digest that possibility now, as opposed to being terribly surprised in the future, at this point it's hard to know which number within the range is priced in, but I think a market has a tendency to kind of expect the worst when things get really bad. And, you know, hope for the best going forward basis. Hopefully the, you know, the stimulus package did provide enough support to, as Wayne said, dampen, the downside impact as it relates to both GDP and unemployment, I think, I think it will. I think it will have a significant impact on the economy on unemployment. relative to what it would've been without the stimulus package.

Wayne Yi: [00:22:48] Yeah. I think the numbers are gonna come out or it could be very messy in the short term because I'm just kind of even reading headlines and what small businesses are telling their employees like, we'll hire do you back, but get unemployment benefits.

So just go, go get unemployed. So that, that would create, create a, maybe a short term artificial in element to numbers. They're trying to figure out can you be furloughed and receive unemployment benefits. and the numbers are just highly volatile, like to Chris's point. Is it gonna be a few points above where we are today to 20 or like, I think I might have been seen a random 30% number out there, but maybe just kind of going back in history, the, kind of on the back of the 2009 crisis, we hit about 10% in unemployment, kind of going back into the eighties. We're kind of at the 11% unemployment. So I think within those bands kind of is that what we're kind of aiming for and over the course of a couple of quarters, is that kind of the actual run rate, taking out some of the, the short term volatility, like.

Maybe that's where we are. Maybe that's what we're going to try to kind of, that's where the, the fed is kind of keeping an eye out on, but, how much does that price in a, I don't know, but people are expecting in a recession. That's going to be as bad as a 2009 situation. And, and the Fed's doing everything they can from their playbook, from there, from their experience to, kinda address it to mitigate that as much as possible and markets are forward looking the markets, the recession had not happened at the trough of the markets or the, the most recent trough, but it's coming, but the markets will rally, even though we're not yet out of that recession too.

Darcy O'Brien: [00:24:44] Thank you Wayne. A couple more questions have been added to the queue. The first one comes in from Jay and he asks, there is no anticipation of inflation, but it must happen with helicopters dropping money. What are your views?

Chris Moore: [00:24:59] you know, we had that question. Post 2008 right. And there were lots of helicopters dropping money post 2008 I think we were all convinced that the massive stimulus package in 2008 and kind of the ballooning fed balance sheet to four trillion dollars that pushed easy money across the global economy would create significant inflation. Here we are. 12 years later, we never saw it. it was never really a concern, there was a point at which the fed raised rates a couple of times in response to some stronger than expected GDP growth, and then quickly, you know, GDP growth came in lower than expected and much more modest. The fed decided to cut rates and here we are amidst another bear market and even further fiscal and monetary stimulus.

So, I think unless we see some major global structural changes such as significant increased demand for commodity sensitive, assets or, you know, the, the impact of technology, not continuously increasing efficiencies and productivity across the globe, or other, you know, capital intensive investment pushing inflation higher. I'm personally just not concerned about a higher inflation environment anytime soon. maybe, maybe this round of fiscal stimulus in response to this bear market gets us there, but I think that's a long way away from now.

Darcy O'Brien: [00:26:53] Thank you, Chris. Our next question in the queue comes in from anonymous.

Do you believe the markets will continue to fluctuate both up and down over the next few weeks as the new surroundings, the pandemic unfolds and as most believe the statistics gets worse with more diagnosed cases?

Wayne Yi: [00:27:15] I'll take a quick shot at this. yeah, it'll still be volatile like, as we try to figure out what the true floor is, not saying that, two days ago was it, but, as there's more conviction around it, there will be kind of movement up and down.

It's still be a choppy market, like we had two strong up days, but the VIX is still at six in the sixties. So. Yeah, it will be volatile, and it will be choppy. but think through like the, once again, looking at the2008 scenario, the, the two months of, 18 and 19 December 18th and January 19, like, there'll be a lot of like volatility will spike.

There'll be a lot of, kind of, by themselves as people kind of trying to figure out what the actual open a true trend line will look like. but I don't think you're supposed to shy away from it. I think that's the thing, right? Like you have to be mindful and thoughtful and, knowing the value of what you're purchasing, over the long-term.

But, it's going to be hard to try and we're not, we're not traders here and we're not trying to time the up and the down. We're just trying to see what the, the go-forward opportunity and return, of trajectory would be over through the cycle over, over multiple years. so that's kind of where we find our comfort.

Darcy O'Brien: [00:28:44] Thank you, Wayne. At this time, there are no remaining questions in the queue. I'd like to thank everyone on the line for taking some time out of their day to participate in today's call. I'd also like to thank Chris and Wayne for sharing their insights with us. I hope that you've enjoyed today's discussion.

If you have any additional questions that we were not able to address during the call, please do not hesitate to send them to me as dobrien@simonquickadvisors.com and we would be happy to address them offline. Thanks again for joining us and have a great evening.

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