

Hughes Investment Advisory Service LLC

Tuesday March 17, 2020

Market Update on Coronavirus concerns and related market volatility

It's been 4 days since my last update on the markets and related economic dislocation as it relates to the Covid-19 Virus outbreak.

Events are unfolding rapidly. Market volatility, mostly to the downside, is the result of a deteriorating backdrop starting with bad news on the Coronavirus. Yesterday afternoon at the Presidential Virus Team update, the tone and message of the press conference was markedly different. To sum up, the Administration is now asking the American people to shut everything down for at least the next 2 weeks but probably longer (the new guidelines will be reviewed in 14 days). Being realistic and based on the new guidelines the American economy and all public gatherings are coming to a halt. The new estimate is that virus related issues will now last until the July/August timeframe – 4 more months! The equity markets reaction yesterday, -3000 points was the worst percentage drop since 1987.

At the moment, and possibly for some prolonged period of time, there will be no clarity on the depth and duration of the Covid-19 crisis. This Medical crisis is causing a Fiscal crisis both resulting in stresses on our country and communities.

As previously discussed, the Federal Reserve has now cut rates to zero and made money available to the financial system of the US and other dollar- based economies – these steps should keep the plumbing of the financial system operating, I won't say smoothly, but operating. The next steps coming out of Washington will be a Stimulus package. The number being discussed this morning is 850 Billion dollars, similar to the Stimulus injected 11 years ago during the financial crisis.

Where are we now is the question? Have stock prices correctly reflected what has happened and what will happen next? Since my Feb 28th Update the 10% move lower has turned into a 30%+ Bear Market and my outlook for the US economy has deteriorated and I do believe a Recession is in process. What happens next and do equity prices currently reflect possible outcomes? Usually, the equity markets discount future events between 3 to 6 months. This is why markets often bottom well before the economy bottoms and alternatively the markets peak well before economic indicators show proof of a downturn.

Frankly, it is difficult to know. My optimistic side wants to believe that the government and the American people are in fact responding in a way that will, when we look back, show that the worst is behind us and although there are many unknowns equity prices reflect a worst-case scenario.

The companies that we own throughout the portfolios are still the best in the world at what they do. When this crisis peaks and a light at the end of the tunnel appears, we should be looking at a nice re-bounce. My confidence in our companies, our government's ability to respond to this crisis and the American people remains steadfast. We will get through this and life will return to normal, it's only a matter of time.

Conclusions: I remain on watch listening and reading the latest news, market activity and economic indicators. I will be upgrading and adjusting portfolios accordingly. Please do not hesitate to give me a call to discuss the above analysis and try not to watch the hourly moves in today's markets which can often be quite gut wrenching.

Sincerely,
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