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COOKSONPEIRCE

TAKING STOCK

SUMMARY

After gaining more than 30% in 2019, US equities entered the new year with upward momentum, supported by broadening economic growth. In mid-January, concern over a respiratory virus spreading in China began to elicit investor attention, though concern within the business community and public sphere was limited. In less than a month, attention turned to alarm as the spread of this disease, COVID-19, proved far more difficult to contain than some recent prologues. In a cascading fashion, countries across the globe began to limit social interactions in an effort to prevent an escalating humanitarian crisis. Domestically, recessionary conditions were quick to emerge and investments across the risk spectrum were negatively impacted. In response, fiscal and monetary policies were immediately unveiled to reduce the shocks to the banking system and provide support to both the supply and demand sides of the economy. These programs were welcomed by investors with equity and fixed income indices quickly rebounding from their panic lows. However, despite the late quarter rally of more than 15%, US stocks finished the first three months of 2020 lower by more than 20%. While a speedy economic recovery is far from ordained, there are numerous factors that argue in favor of resurgence. Governments across the globe have responded forcefully with stimulus packages and accommodative monetary policies. Domestic stocks are certain to continue to display elevated levels of volatility in the coming weeks and months, but as clarity emerges and uncertainty dissipates more customary trends should emerge.

BENCHMARK RETURNS

INDEX	RETURNS				
	JAN	FEB	MAR	1st QTR	YTD
S&P 500 (Equity)	-0.04%	-8.23%	-12.35%	-19.60%	-19.60%
Russell 3000 (Equity)	-0.11%	-8.19%	-13.75%	-20.90%	-20.90%
MSCI World (Equity)	-0.61%	-8.45%	-12.23%	-21.05%	-21.05%
Lehman Intermediate Bond	1.42%	1.41%	-0.44%	2.40%	2.40%
Lehman Municipal Bond	1.80%	1.29%	-3.63%	-0.63%	-0.63%

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QUARTERLY RECAP

After gaining more than 30% in 2019, US equities entered the new year with upward momentum, supported by broadening economic growth. Most investors anticipated a continuation of the long-standing economic recovery which began a decade earlier as accommodative interest rates, low unemployment and robust corporate margins created a tranquil and potentially profitable economic atmosphere. In mid-January, concern over a respiratory virus spreading in China began to elicit investor attention, though concern within the business community and public sphere was limited. In less than a month, attention turned to alarm as the spread of this disease, COVID-19, proved far more difficult to contain than some recent prologues. In a cascading fashion, countries across the globe began to limit social interactions in an effort to prevent an escalating humanitarian crisis. In the process, economies were largely shuttered with nonessential activities and commerce discouraged or prohibited. Domestically, recessionary conditions were quick to emerge and investments across the risk spectrum were negatively impacted. In response, fiscal and monetary policies were immediately unveiled to reduce the shocks to the banking system and provide support to both the supply and demand sides of the economy.

Largely following the playbook from the Great Financial Crisis of 2008, the Federal Reserve acted first by sharply lowering interest rates, expanding their interbank lending programs and providing liquidity to the credit markets. These measures rapidly restored order to the banking system and mitigated stresses in short term lending facilities. Days later the Federal government unveiled a series of programs to aid businesses and individuals. The $2 trillion package was broad in scope and unmatched in scale. In total, the bill delivers fiscal support amounting to nearly 10% of US GDP. Half of the package consists of immediate permanent transfers, cash payments, to individuals and businesses. With nearly all of these funds, over $1 trillion being injected into the US economy immediately, the effects of the stimulus programs should be acute. The second half of the package focuses on providing support to households and business through tax payment delays or waivers along with creating a loan facility from which the Federal Reserve could provide direct lending to corporations. These programs were welcomed by investors with equity and fixed income indices quickly rebounding from their panic lows. However, despite the late quarter rally of more than 15%, US stocks finished the first three months of 2020 lower by more than 20%.

LOOKING FORWARD

Given the exceptional nature of the current contraction, the outlook for the domestic economy is the subject of significant debate. A veritable alphabet soup (V, W, U or L) has been used to describe the potential path and trajectory of future recovery. Consensus does exist however, in that any economic recovery is contingent upon suppression of the pandemic. While there is no definitive containment timeline, progress on the slowing of the global spread of the virus seems likely to be measured in weeks or possibly months, not longer. Once confidence is gained that the virus is properly controlled, an expeditious return of pent up demand is likely, although a large portion of sales missed due to containment measures are simply lost outright, not deferred. The supply side of the economic equation is likely to experience short run constraints as impacts to global supply chains and capacity issues are probable impediments. The role of Federal spending in this scenario is significant. Fiscal policies, like those already in place, may be particularly well suited to affect an impact given the exogenous nature of the forces behind our current recession.

While a speedy economic recovery is far from ordained, there are numerous factors that argue in favor of resurgence. Governments across the globe have responded forcefully with stimulus packages and accommodative monetary policies. Never has such a coordinated effort of this economic scale been enacted upon a global economy in such a short timeframe. While these programs will have long run funding ramifications, their effect in the short run should be broadly positive and allow for a path upward once the virus is contained. Domestic stocks are certain to continue to display elevated levels of volatility in the coming weeks and months, but as clarity emerges and uncertainty dissipates more customary trends should emerge. Additionally, equities and risk assets overall should begin to move in advance of concrete economic data. Assuming that containment of the virus is achieved within the bounds of the currently accepted time horizon, the catalysts for an equity recovery could appear sooner than many are currently anticipating.