# **COVID-19 Market Update**

Current market events dictate a review letter.  Before looking at where we are let’s take a look at how we got here.  Starting with the 2016 election the market made a good bull run through 2017.  There were some trade war tariff related instability in early 2018 but by the summer we were again breaking into new highs. From the 2018 mid-September high to the Christmas Eve low, the market fell roughly 19.5 percent thereby missing the 20% threshold of being declared a bear market by a fraction of a percent.  This market drop had no corresponding economic slowdown and ended up making a remarkable V shaped recovery by spring of 2019. This run continued to the all-time high of February 19.  After such a strong run it is to be expected that there would be a market drop.  The surprise is how steep and sharp the drop is.  March 9, 2020 marks the 11 year anniversary of the bear market bottom of March 9, 2009.  As I write this we are near the 20% threshold of a bear market.  With the current extreme volatile trading days, we may yet cross into an official bear market.

Over the past weekend Saudi Arabia initiated an oil price war with Russia and the United States.  Their objective is to knock out our shale production and lessen Russia’s and Iran’s influence in the Middle East.  Besides the huge drop in oil prices on Monday March 9, this also resulted in the entire range of US Treasury bond offerings being priced below 1%!  That means the 30 year US Treasury bond was yielding less than 1% for its 30 year term!  And of course there was the roughly 8% one day drop in the US stock market. While the immediate effect of this big drop in oil prices hurts some industries there is a longer term net positive for consumers who will pay much less at the gas pump and benefit overall from lower energy prices.

What to do?  What are the opportunities presented within this current crisis?  There are several opportunities.  Buying during a steep market sell off has the potential to enhance long term results buy proverbially buying low.  Now is the time to make your IRA or Roth IRA contributions if you have not already done so.  If you are investing via a monthly SIP (systematic investment plan) you can always send in a little extra.  Or if cash flow allows it consider switching your monthly investment program to twice a month to have the currently extreme volatility go to work for you.  If you do wish to switch to a twice per month frequency it is important to remember to stop new contributions once you reach your maximum IRA contribution limit for the year.  We can help you through the process of implementing this idea.

Another opportunity is to look at all of your debts and looking for refinancing opportunities.  I am seeing 15 year mortgage rates in the high 2% range and 30 year mortgage rates in the low 3% range.  Depending on your mortgage rate and term there may be opportunities to switch your 30 year mortgage over to a 15 year mortgage at a similar monthly payment while knocking many years off of your term. If you do not have a trusted mortgage contact I can help you here.

It is an open question as to how severely the COVID 19 virus will affect the US and world economies.  It is possible that we will bounce back from this rather quickly like we have from other virus outbreaks.  At this time, the efforts at containment have resulted in the cancellation of many conferences, sporting events, and other large sanctioned gatherings of people.  This primarily affects the travel and leisure industries.  Then there are the factory slowdowns being caused by disruption in manufacturing and the transportation of goods which has the potential spill out into a global recession.  It is important to recognize that there is a difference between cancelled travel plans and delayed purchases. Cancelled travel plans result in a permanent loss in revenues for the leisure industry whereas the delayed purchase of a new iPhone for example will hurt earnings in the near term but enhance earnings in some future quarter when these products are eventually purchased.

The future is unknown.  There is a definitive immediate stoppage of various events and an interruption of parts supplies affecting industrial output. Whether this is a blip in our growth or represents the start of a long term slowdown is still an open question as evidenced by the wide swings in daily market results. These daily swings represent the back and forth between “things are getting worse” and “things are getting better”. It is important to remember that “get in” and “get out” are not investment strategies.  That represents gambling on moments in time for a hoped for outcome.  Panic is not an investment strategy.

One more important observation. More than ever before I have been getting the question about how the upcoming presidential election will affect the economy and markets going forward. The answer is not as much as one would believe. During my 30 year career I have frequently heard “the wrong party is in control and things will not go well”. It is important to understand that corporations manage their conduct to make money in any environment and any set of situations. Corporations change their behavior to maintain profitability. The other important point is that the markets are considered leading indicators looking ahead to how the economy is doing 6 to 9 months out in the future. We have now entered into the period of time where the markets are digesting the outcome of the upcoming November elections. By mid-summer the markets will be reflecting on events beyond the election. It is important to stay politically agnostic regarding political beliefs and market expectations.

Depending upon a number of variables including age, investment time horizon, risk tolerance, etc.  There are a number of strategies to employ to achieve your financial objectives.  If you have any questions or concerns please call to discuss them or schedule an appointment.  December of 2019 marked my 30 year anniversary of my tenure in the financial services industry.  While I have not seen this precise configurations of circumstances before I have certainly seen numerous crisis before.  We have made it through all of them. I am confident that we will get through this one as well.  My industry rules for proper written client communications require that I include the disclaimer that past performance is no guarantee for future results. We can however look to history to provide us a guide.

Sincerely,

Chris Hasircoglu

Investment Advisor