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# Special Market Alert

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**CURRENT MARKET AND ECONOMIC CONDITIONS**

- Since the all-time high on February 19th, the S&P 500 Index has dropped over 30% and into a bear market.
- The investment grade bond market, as represented by the BloombergBarclays Aggregate Bond Index, rallied and then fell and is now down about 4% during the same period.
- The policy actions outlined below are helping to build confidence that the economy will be able to bridge this crisis and come out of the other side.

## MONETARY POLICY

- The Federal Reserve has taken the following steps to create a financial bridge for the economy:

| | |
|---|---|
| Tues, March 3rd | Fed lowers Fed Funds Rate by 0.50% from 1.75%-1.50% to 1.25%-1% |
| Mon, March 9th | 10-year T-Bond Yield hits all-time record low of 0.31%; expands overnight lending repo operations to $150 billion |
| Wed, March 11th | Expands overnight repo to $175 million |
| Thurs, March 12th | Extends repo operations to longer term |
| Fri, March 13th | Re-starts asset purchases by buying $37 billion of treasuries |
| Sun, March 15th | Slashes Fed Funds Rate from 1.25%-1% to 0.25%-0% |
| Mon, March 16th | Additional overnight repo of $500 billion |
| Mon, March 23rd | Creation of Main Street Business Lending Program |

The intended effect of the Fed's actions is to provide needed overnight and short-term liquidity to the credit markets as well as provide banks with additional cash to meet demand.

**FISCAL POLICY**

Congress has undertaken the following stimulus packages in three phases:

Fri, March 6th - Stimulus Phase 1: $8.3 billion, provides:

- Extra funding for the Centers for Disease Control and Prevention (CDC), Food and Drug Administration (FDA), National Institutes of Health (NIH), the State Department, the Small Business Administration (SBA), and the United States Agency for International Development (USAID).
- It includes $4 billion to make more coronavirus tests available, and $1 billion in loan subsidies for small businesses.

Wed, March 18th - Stimulus Phase 2: $100 billion (est.), provides:

- Free coronavirus testing including for the uninsured.
- Two weeks of paid sick and family leave.
- Increased federal funds for Medicaid and food security programs, like SNAP.
- Increased unemployment insurance benefits.

Pending - Stimulus Phase 3: Pending $1.8 trillion (est.), proposal would provide:

- Direct payments to taxpayers.
- Loan and Loan Guarantees to businesses, states, cities, and small business loans.
- Potential bailout for the airline industry and other industries affected.
- Guaranteed money market mutual funds.

## STOCK AND BOND MARKETS

- The short-term rush to safety has not spared any investment class, except cash, as all have turned negative since the all-time high for the S&P 500 Index on February 19th. Investment grade bonds and Treasury bonds have been sold as certain institutional traders grapple with margin calls and other leverage issues. While the total return for bonds is negative since February, they are still providing significantly less downside volatility than the stock market during this time and a nice ballast against equities for asset allocated portfolios.
- The stock market continues to be volatile and is struggling to properly discount the potential impact of the necessary measures that are being taken to "flatten the curve." Based on the lessons we have learned from the countries that have been dealing with COVID-19 longer than the U.S., the government measures, on both a national and local level, are becoming more aggressive to meet the challenge.

Some days it seems that market is selling everything regardless of quality. Those are referred to as capitulation days. It may take several more capitulation days for the market to find the bottom.

## PORTFOLIO STRATEGIES

- Times of market stress have historically offered a significant opportunity for investors to buy at lower prices, whether by investing new cash, rebalancing to current targets or increasing the risk profile of the current portfolio allocation. We are looking for opportunities to rebalance our portfolios to current targets.

- Investors who are concerned about the current volatility in the stock market may look to increase exposure to bonds.  Given that interest rates are likely to stay low for an extended period, we are increasing our duration to be closer to the benchmark.  We are keeping the general credit quality of the portfolio higher than the benchmark to provide stability to the overall portfolio during times of market volatility. Given the heightened credit risk, we have purposefully avoided investing in funds that focus on junk bonds within our bond allocation.  Falling interest rates have provided positive total return year-to-date and for the past 12 months for our bond strategies.
- We continue to focus on the goals, objectives and risk profile of each of our clients and manage our client portfolios accordingly.  The portfolio for each of our investors is allocated between growth and safety based on their own tolerance for risk in the short run and their desire for long term upside potential.

Talk to your advisor if you have any questions.