

PANDEMICS AND MARKETS: WHAT TO DO NOW

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FINANCIAL IMPACT OF PAST PANDEMICS

<u>Epidemic</u>	<u>Year</u>	<u>6mo Later</u>	<u>12mo Later</u>
SARS	2002	+14.6%	+20.8%
H1N1	2009	+18.7%	+35.9%
EBOLA	2014	+5.34%	+10.4%
ZIKA	2016	+12.0%	+17.5%
COVID-19	2020	?	?

Source: Dow Jones Market Data

WHY DOES THE MARKET FALL DURING PANDEMICS?


There are key linkages between health, behavior, profits, and markets

Viruses cross from animals to humans	=> The viruses have no cure
The viruses have no cure	=> Fear of uncontrolled virus spread
Fear of uncontrolled virus spread	=> Sharp drop in spending & travel
Sharp drop in spending & travel	=> Falling profits & lower expectations
Falling profits & lower expectations	=> Fear of prolonged recession
Fear of prolonged recession	=> Markets decline
Markets decline	=> People fear losing more money
People fear losing more money	=> Greater drop in spending
Greater drop in spending	=> Self-fulfilling economic weakness

COVID-19 IS PROVOKING UNPRECEDENTED STOPPAGES

- Travel restrictions or stoppages, halting billions of spending
- Most sports & entertainment stopped, halting billions of spending
- Disruption of some global supply chains, inhibiting businesses
- Rising number of U.S. school systems, cities, and businesses are closing
- Entire West European countries are shutting all businesses, except grocery and pharmacies

*Global recession is increasingly likely,
causing rapid selling in stock markets*



WHAT IS GOVERNMENT DOING TO SUPPORT THE ECONOMY AND MARKETS?


- Federal Reserve**
 - already cut rates by 0.5%, and will cut more ahead
 - Quantitative easing (buying bonds to lower rates)
 - Potential of zero or negative interest rates
- U.S. Treasury**
 - Injecting >\$1 T into credit market to keep it functioning
 - Secretary of Treas negotiated emergency Coronavirus bill
 - Financial support of key industries is expected
- Congress**
 - Negotiated emergency Coronavirus bill with Treasury
 - Expected to pass a big spending bill to provide stimulus
- White House**
 - Coordination of government agency leadership
 - Eliminating barriers to care
 - Authorizing access to \$50 billion of emergency funds
 - Engaging private sector CEOs and their companies

WHERE DO WE GO FROM HERE?

It gets worse before it gets better, due to:

- U.S. COVID cases continue to rise and will take time to peak
- Immediate contraction of economies worldwide, causing layoffs
- Uncertainty of when life returns to "normal"

The impact of U.S. government action takes months, and will be gradual

- Congressional action needs difficult-to-achieve bi-partisan support
 - Federal Reserve rate cuts take time to take effect on economy
 - Fiscal stimulus (Congress-initiated) is felt 6-months down the road
 - Monetary stimulus (Federal Reserve) can instill confidence, but impact is gradual
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WHAT MIGHT EVENTUAL RECOVERY LOOK LIKE?

The V-Bottom

Best Case Scenario

- 2-6 months depressed economic activity
- Sharp market rebound
- Quick recovery of consumer spending
- Return to normal travel, sports, entertainment spending
- Fast rebound among businesses
- No major bankruptcies

The U-Recovery

Likely Scenario

- 6-12 months depressed economic activity
- Several apparent market bottoms that don't hold
- Consumers are slow to rebound to prior normal
- Risk aversion among investors who don't trust recovery
- Serious damage to business/consumer confidence
- Major lay-offs dampen recovery; some bankruptcies

The L-Recovery

Worst Case Scenario

- 1-2 years depressed economic activity
- Very sluggish, or no rebound, in global economy
- Consumer behavior is altered long term
- Long term, structural damage to US economy
- Widespread layoffs and corporate bankruptcies

WHAT SHOULD YOU DO NOW?

1. Have (or raise) 1-year worth of cash/money market to run your household
 2. Evaluate your asset allocation for today's riskier environment
 - Do you have too much stock market risk?
 - If yes, use market rallies to sell and reduce exposure
 - If you own bonds/bond funds, consider taking profits
 3. If you have excess cash, make a 'shopping list' of potential opportunities
 - Stocks or ETFs that benefit from lower interest rates
 - Companies or ETFs growing regardless of COVID
 - Companies or ETFs benefitting from 'stay at home' trend
 - Industries getting government support (airlines, cruise lines, hotel industry)
 - Foreign country ETFs where COVID is on the decline already
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THE PANDEMIC WILL END

Positive things happening now that will aid economic recovery

- Mortgage rates have fallen to record lows
- Over 80% of Americans can refinance
- Oil supply glut will reduce gasoline below \$2 a gal
- Lower rates and cheaper gas will add billions to the economy

COVID Crises is forcing bi-partisan cooperation in Washington

Every epidemic in the last 20 years was followed by eventual recovery, and new market highs

Governmental policy lessons learned after 9/11 and the Great Financial Crisis have given the government a toolbox of policy strategies to combat economic crises

BELIEVE IN AMERICA. IT WILL RECOVER, AND REMAINS THE BEST COUNTRY IN THE WORLD IN WHICH TO INVEST FOR THE LONGTERM!

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