Market Commentary

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Unprecedented Economic Times

We are living through truly unprecedented times. The new coronavirus (COVID-19) has changed the way we're working, living and relating to one another, and numerous organizations have even called this a 'watershed' moment in history.

When we look back over even just one month, it's hard to believe the stock market sell-off we've witnessed. The market fell into a bear market (a drop of more than 20%) in just 22 days as stock market volatility hit a record high. At the same time, U.S. Treasury yields have fallen to levels we have never seen as investors seek out safety.

Weekly unemployment claims also hit a record when 3.3 million people filed for unemployment insurance. That number is almost five times the previous high of 695,000 in one week set back in October 1982. And this is at a time when the economy only weeks ago was showing healthy signs of growth.

THE ECONOMIC IMPACT

We're definitely seeing the swift impact of the virus on our economy. Suddenly, growth and economic viability are in question for the foreseeable future. Estimates for economic growth over the next few quarters vary widely. Among eight industry analysts, the prognosis for second quarter Gross Domestic Product (GDP) varies from as deep a dip as -30% (Morgan Stanley) to a rosier -7% (Barclays) on an annualized basis. Either way, investors should expect to see numbers that are again, unprecedented.

That said, there is still widespread optimism for a rebound and recovery. All eight industry analysts expect that by the latter part of the year, we will be headed back into positive territory in terms of economic growth.

While a return to growth in the second half of 2020 is the broad expectation, we should caution that there is much uncertainty around those forecasts and expectations. We've stopped trying to compare the current pandemic with previous pandemics and the past – it's simply unprecedented and we have to treat it as such. We're learning new lessons every day.

OUR PERSPECTIVE

We've been in a low, but stable, economic growth environment for some time, and that expectation continues for the next five to 10 years. However, given the recent pull back in global stocks and parts of the credit market, we believe that potential asset class returns look significantly better going forward.

Whereas we have felt U.S. stocks have long been over-valued, we believe they're now near "fair value," which is a positive development when thinking about future returns. U.S. stocks may also benefit from the strong monetary and fiscal response we've seen to mitigate the economic impact of the COVID-19 outbreak. We believe international developed and emerging market stocks remain attractive, as do investment grade corporate bonds; high-yield bonds have become undervalued and represent an attractive buying opportunity. Of course, that doesn't mean that markets can't go lower in the near term. In contrast, treasury bonds are unattractive in our view given their extremely low yields.

Our hopes for more stable financial markets and renewed economic growth somewhat depend on the stabilization of the virus and containing new cases. We also are hopeful that the fiscal and monetary stimulus will cushion the adverse effects of essentially putting our economy on pause to address the coronavirus outbreak. We may even see Congress pass additional stimulus measures to restart our economy once this outbreak subsides.

In conclusion, it’s helpful to remember that the current economic crisis is the result of a unique event, not a systemic problem in our financial system. Looking back over history, we have experienced wars and oil price shocks that were unexpected and certainly impossible to have foreseen or controlled. Markets have typically recovered more quickly from these event-driven price dislocations than they have from sell-offs due to structural problems. With the relatively healthy economy we enjoyed prior to COVID-19, we have confidence that we can rebound from this more readily than we would from a systemic problem (such as the tech bubble of the late 90s or unsound lending practices in the 2000s). For instance, banks are healthy, and consumers are in good shape.

As a society, we can continue to do our part to “flatten the curve” to contain the virus. We can also observe what’s happening in Europe and other regions in order to build a plan for recovery. We have the benefits of a multi-trillion-dollar stimulus bill, and a Federal Reserve committed to providing all Americans with a stable and functioning financial system. In the meantime, we’re watching and monitoring the situation and are in close contact and collaboration with our fund managers. We do believe that markets will stabilize and make new highs in time. And we are convinced that investors who align their cash flow needs with the time horizon of their portfolio will be well-positioned to succeed during this turbulent period.

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