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Coronavirus, Oil Price War, Interest Rate Shock, Oh My!

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What a lousy way to celebrate the 11th anniversary of the beginning of this current bull market.

With investor psychology already fragile from coronavirus uncertainties, the shock of an oil price war between Saudi Arabia and Russia that erupted over the weekend, was too much for investors as they rushed to the sidelines to find safe haven assets. The stock market plummeted with the Dow Jones Industrial Average falling 2,014 points – the largest single day point decline ever. The 7.79% drop in the Dow Jones Industrial Average was the largest one-day percentage drop since October 15, 2008. The Nasdaq Composite and the S&P 500 also saw their largest drops in percentage terms since December 1, 2008. *All on the anniversary of the U.S. Stock market's longest-ever bull run*.

There is no other way around it, Monday's trading session was brutal and will certainly become known as another "Black Monday". The rapid and precipitous drop leaves the major indices within shouting distance of a bear market threshold – which is a 20% decline from the market high. Interestingly, according to Bespoke Investment Group, Monday's drop was the 11th decline of 5% or worse on a Monday backdated to 1952 for the S&P 500 index. The good news is that on average the S&P 500 has returned 12.75% in the six months after the one-day 5%+ drop.

The bond market was the recipient of the move away from stocks as investor's demand for safety pushed the price of the 10-year U.S. Treasury to a level where the yield was just over 0.30% before finishing the day at a yield of 0.50%. If there was a silver lining today it was that with all the emphatic selling of stocks and buying of bonds, market trading was orderly. Maintaining market liquidity is imperative for an eventual rebound.

Negative coronavirus news was abundant over the weekend with the number of new cases worldwide now passing 113,000. These total confirmed cases are undoubtedly understated. Mass quarantines in Italy, several states declaring a state of emergency, additional closures and cancellations of events were prevalent in the news. Anthony Fauci, Director of the National Institute of Allergy and Infectious Diseases said that he was not "encouraged".

The route began over the weekend when the oil supply pact between Saudi Arabia and Russia collapsed and both countries vowed to hike production amid weakening global demand from the impact of the coronavirus. The threatened price war sent the price of oil plummeting with the West Texas Intermediate crude oil price falling to $32 per barrel. It is unclear what the motive is for each country, but the impact was certainly felt in the United States.

The question that market participants are trying to answer is the severity and duration of impact that these shocks will have on the economy. With the steep and severe drop of the market, comparisons to the 2008 financial crisis will certainly be made. We are reminded that the economic backdrop is substantially different today than it was in 2008.

- In 2008, the consumer was heavily debt laden. In 2020, the consumer is in strong financial health; consumers have jobs, their wages are rising and their debt as a percentage of their disposable income has been falling.
- In 2008, the banks were highly levered. Today the banks have 2 to 3 times more capital than before.
- In 2008, the economy was stumbling; whereas, the current economy has been strong as evidenced by the exceedingly strong February 2020 jobs report. While this jobs report is a look in the rear-view mirror, it nevertheless shows that the economy was strong when it was hit with these economic headwinds.

Sharp selling is always painful. In times like these, it is imperative to keep a focus on fundamentals, and to make decisions that protects long term portfolio values and strengthens portfolios. This is our commitment to you.