# TINGEY ADVISORS
REGISTERED INVESTMENT ADVISORS

**Spring 2020 Newsletter** www.tingeyadvisors.com 801-352-8166

## Benchmarks

| | 31 Mar 2020 | 31 Dec 2019 | 31 Mar 2019 |
|---|---|---|---|
| S&P 500 | 2,585 | 3,231 | 2,834 |
| DJIA | 21,917 | 28,538 | 25,929 |
| NASDAQ | 7,700 | 8,973 | 7,729 |
| 6-mo US Treasury Yield | 0.15% | 1.60% | 2.43% |
| 30-yr US Treasury Yield | 1.35% | 2.39% | 3.85% |
| Prime Rate | 3.25% | 4.75% | 5.50% |
| Federal Funds Target Rate | 0.00% | 1.50% | 2.50% |
| 30yr Mortgage | 3.85% | 3.30% | 4.19% |
| Gold – per oz | $1,583 | $1,523 | $1,299 |
| Oil - WTI / bbl | $20 | $60 | $60 |

Sources for Newsletter: WSJ, Barron's, Bloomberg, NBER, Blackrock, US Treasury, JPM

## Robust economy gets slammed by a virus…

Three months ago, we were writing about a robust finish to 2019 with stocks at record highs and the economy posting a record duration of economic expansion. The economy through February seemed to be accelerating. Expectations were that the global economy would stage a modest rebound in 2020. The U.S and China were making progress on their trade agreement and central banks around the world were poised to keep interest rates steady through the balance of the year. The U.S. jobs market was exceedingly strong and accelerating.

Now, as the first quarter 2020 ends, the tune has changed abruptly and dramatically due to the economy being slammed by the coronavirus pandemic. What initially appeared to be another virus epidemic that would primarily impact China became a worldwide pandemic that brought worldwide economic activity to a standstill.

Public health policies to remediate the impact of the coronavirus are designed to protect public health, but they are detrimental to economic health in the short run. Success in the public health arena ultimately means long run economic success. The question that investors are trying to understand is how much damage the economy will sustain by the public health measures designed to flatten the curve of the virus' progression.

Clearly the public health strategy to keep citizens safe and healthy by social distancing, keeping people from gathering and traveling has left a hole in the economy. How significant that hole is we don't know, but *again intuition tells us that it is large*. It has required the double-barreled response of monetary and fiscal policy. We have been gratified that the Federal Reserve has said that they "will do whatever it takes" to preserve liquidity and support the economy. Additionally, Congress and the Trump Administration have come together on a $2.2 trillion fiscal spending bill that is designed to fill the economic hole that prudent public health policies created.

We have an unusual situation that precedes this oncoming recession. Typically, we slide into recession and jobs are gradually lost along the way. Only the clearing out of the excesses in the ensuing recession allows for capital to form again and jobs to be generated. *This time we aren't sliding – we are falling sharply*. While many jobs are lost, most are not, and policies that help maintain jobs before they are gone will be far more effective. As we've mentioned before, it will be much less costly to keep the jobs than to lose them and pay unemployment awaiting the time when capital would form again to regenerate jobs.

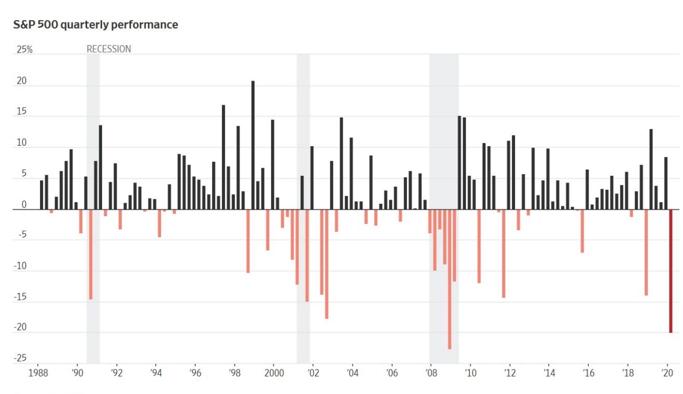
The most telling effect of the rapid deceleration/contraction of the economy can be seen in the jobs market. Weekly jobless claims have exploded as government lockdowns and social distancing policies take their economic toll on economic wellbeing. Over the course of the past three weeks 17 million people have filed for unemployment benefits and at the end of March 7 million people were counted as continuing unemployment claims.

The health toll is significant and public health policies will ultimately allow for the economy to grow again. Our belief is that scientists will win this battle with social distancing strategies, anti-viral therapies and ultimately a vaccine. We do not know, nor do we think anyone knows with certainty how long that will take. However, we do know that the toll in lives lost will be great. The challenge for the country is that the remediation strategies cannot go on forever. Otherwise, the economic devastation will turn into spiraling bankruptcies, poverty, homelessness, mental health and other physical health issues. The economy needs to be reopened but in a manner that will allow the health care system to be as effective as possible, balancing the needs for public health with economic stability.

**Stocks:**

U.S. stocks closed out their worst quarter since the depths of the great recession of 2008. A remarkable turn of events that few investors could have foreseen three months ago.

The S&P 500 finished the quarter at 2,585 a 20% decline from the



beginning of the year – its worst quarter since 2008. The Dow Jones Industrial Average closed the quarter at 21,917 a decline of 23% for the quarter, its worst showing since 1987. The Nasdaq Composite finished the quarter at 7,700 down 14% from the beginning of the year.

Volatility set historic records. The S&P 500's absolute average daily percentage change in March was 5%, surpassing a previous high set during the Great Depression, according to Dow Jones Market Data.

<u>Commodities</u>:
Gold rose, as investors fled to safety. Oil prices were ravaged during the quarter. In the face of the falling worldwide demand for oil due to the coronavirus pandemic remediation efforts, Saudi Arabia and Russia ignited a price war creating excess supply to drive prices lower. The price war was ill timed and ill-advised as oil dropped far lower than the OPEC nation expected.

Consumers are stocking up on wheat and rice, two of the world's staple grains creating supply chains stress and rising prices. The world is not about to run out of food because stockpiles of grains and oilseeds are high thanks to a series of strong harvests. *<u>Getting it to the right places is the challenge.</u>*

**<u>Bonds / Interest Rates:</u>**
As the coronavirus pandemic heated up, the Federal Reserve moved quickly to pull out their 2008 playbook and immediately reduced the Fed Funds rate 1.50% in two assertive steps. They also announced that they would reinstitute quantitative easing by buying long term Treasury bonds. The result of these two actions drove short term rates to essential zero and the 10-year Treasury yield to 0.70%. The reduction in long term rates was stunning and precipitous. The 10-year Treasury began the year at 1.88% and finished the quarter at 0.70%. The 30-year bond started the year at 2.33% and finished the quarter at 1.35%.

While bond prices were being driven higher in the treasury market, the corporate market was experiencing something different. As investors weighed the economic impact of the public health remediation efforts, they determined that many corporations would be experiencing negative cash flow consequences.


In order to induce investors to take the risk of that corporate debt, their yield rose in relation to treasuries and the spread between the two widened. As corporate cash flows are called into question, the investors demand higher yields to take the credit risk. Therefore, the difference (or spread) between the yield of the treasuries and corporations rises.

This phenomenon was playing out in the municipal market as well as the corporate bond market. The Federal Reserve, quite aware of this situation took steps to create funding facilities to support municipal and corporate bonds markets. The federal reserve eased the panic and the spread moved lower.

## In Summary

It is spring and to look at the weather you'd think it was any other transition from winter to summer. However, we all have a visceral feeling that we are going through something historic, that we are going through something big. We've never seen this before and pray we never see it again.

Concern for the health of our loved ones is on the top of our minds, but we also realize that we can't go on in "shutdown mode" forever. We rely on governments, corporations, churches, civic groups, individuals and neighbors to do the right thing. And we pray each night for the heroes in each medical facility or laboratory who carry us through this. Hardship makes us stronger and we know that we will get through this challenge.

So far, I think this nation has done us proud -- innovation, adaption, technology and grit is helping fight the fight. We are all participating in some way to something much larger. Seeing a higher purpose is the hallmark of Americans and their collective good judgement is legend. Perhaps once we are through this, we will see a greater purpose in each other.

As investors we find ourselves watching the market's gyrations and we wonder why do we do this? Here is the answer for us:

- We believe the institutions of this country are strong because the principles which underly those institutions are strong.
- This country has a history of working through challenges in whatever form.
- Most of the world's innovation comes from the United States.
- The United States is the safest economy with the most liquid markets and strongest banking system and most effective and innovative scientists.
- U.S. Companies respond to market and economic challenges and they work to mitigate risks and take advantage of opportunities.
- There is inherent value in the markets today and that value will ultimately be recognized. Recessions end, bear markets give way and a growth trajectory resumes.

<u>We are praying for you and your family's health and safety.</u> We are also praying that this country will come out of this with a stronger commitment to the principles that have made it great.

<u>Our investment strategies change with market conditions, but our principles do not</u>. Our long-term optimism remains intact. We recognize that during complex market times, communication is important. <u>It is a privilege doing business with you</u>. We appreciate your confidence in us, especially during uncertain times.