

Update: Coronavirus and the Markets - What We're Watching

Have you been experiencing a sense of déjà vu lately? Like you've lived the exact same day over and over again? A few months of quarantine and self-isolation will do that to you. Good news, the groundhog-like days may be coming to an end for some of us as we start to see progress in the data surrounding the spread of the virus and states start to reopen. While excited for the prospect of being able to socialize with family and friends, go back to work or shop and dine again, concern of its impact still lingers. At what pace do we reopen? How do we know what to reopen? Once we reopen, do we need to interact differently both socially and professionally? Our very own Rachael Aiken, VP and Portfolio Manager recently commented during [her interview on CNBC's Power Lunch](#), that watching the spread of the virus and subsequently the spending by individuals and corporations in the future, will be the key to seeing how well and how quickly we can reopen the economy. While uncertainty in the answers to these questions remain one thing is for certain, reopening will be a multi-step process that will take time until we get it right.

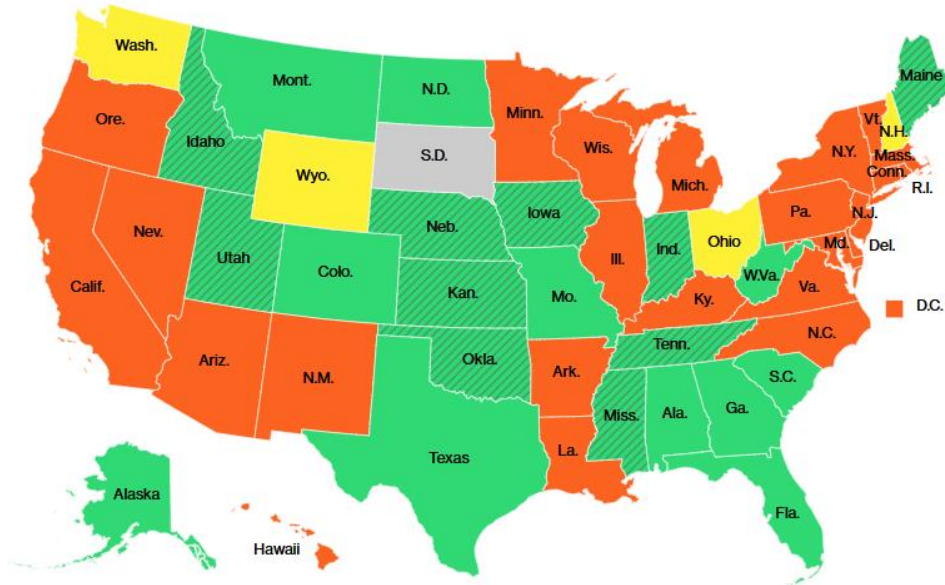
Today's jobless report returned dismal numbers, 14.7% unemployment rate with leisure and hospitality industries being affected the most. The jump is largely due to part-time layoffs, but thankfully most of the unemployed believe their layoff is temporary - of the 23.1 million unemployed, 18.1 million believe their layoff is temporary. So a successful reopening that allows us to go back to eating out and traveling will turn things around, but how quickly we can do so remains in question. Success in reopening, albeit guided by our government officials, will largely rely on us individuals to act responsibly. Nevertheless, corporations and businesses all have an important role to play as well. Businesses need to consider the safety of their employees above all else by providing the necessary resources for safe human interaction, such as proper sanitation, personal protective equipment, testing, spacing, and contact tracing among others. Corporations also must come up with proper safety measure for interacting with their suppliers and their customers to ensure the entire supply chain remains as resistant to contagion as possible. Keeping up with the guidance from the CDC, local health commissioners, and other government agencies will aid in the planning and execution to effectively and safely return to a state of normalcy.

Vigilance at this level will be instrumental in minimizing incidents of outbreak to smaller groups as opposed to global populations. Unfortunately, we have seen some states start to reopen and fail to meet the White House Coronavirus Task Force "gating criteria" meant to guide states on lifting restrictions and getting back to normal. The criteria includes "a decline in symptoms of the virus as monitored by local health networks, fewer cases or a declining percentage of positive tests, and hospitals systems that can handle the strain of the outbreak." Bloomberg News found that 10 states that have lifted restrictions don't meet the White House guidelines for reopening. Many are moving ahead anyway.

Some States Have Started Reopening

As of May 5, 2020, 11:00 PM EDT

- Still in lockdown
- Lockdown winding down
- Partial reopening
- Reopening without meeting criteria
- No lockdown in place



Source: Bloomberg

As we consider the government's responsibility at a national and local level it becomes apparent that the more successful the reopening is, the less fiscal and monetary action is required at the Federal level. While the Fed could back off slightly, the CDC, FDA, and SBA will remain busy.

- The CDC will have to actively provide guidelines that allow productivity where possible and prioritize safety in others to prevent and limit flare-ups
 - Local Health Commissions will be important for the CDC as they directly intersect with the communities, businesses, schools, and citizens to ensure everyone is doing what is necessary to keep safe
 - Local educators will have to find effective ways come the fall to teach and keep children and themselves safe and healthy
- The FDA will need to work feverishly and responsibly to test treatments and vaccines and monitor efficacy, and prioritize where government dollars allocated to the production of effective drugs is directed
- The SBA with tremendous assistance from our banks, will have to develop effective ways to monitor companies to ensure they keep their commitments that will allow for the forgiveness of loans

These examples and what both business and individuals need to do, certainly creates a can do attitude that is punctuated by the reality of we are all in this together.

So what is next? What will the markets be like under a successful reopening? What will the economy look like under a successful recovery? Nobody knows for sure, but if history is a guide often times those companies that are punished the most in a bear market, are also the ones to recover the most in the

early days as the market realizes there is life beyond the despair of today. Take the case of 2008 when the four worst performing sectors were Real Estate, Technology, Materials, and Financials. The very next year, three of those were in the top four returning sectors in 2009. The market is a forecasting tool and it is clear at this point given the recovery we have had – +31% since the low, and now down roughly 11% year-to-date as of this morning – the market believes we can have a successful recovery, and we are optimistic it is correct.

It is also safe to say that some of the side effects of Covid-19 on our economy, businesses, and consumers will be seen and felt for years to come. Some things will permanently change, some for good while others not as much. Changes may occur in a variety of ways such as how we greet each other, where we live, how we learn, how we commute, etc. Nevertheless, while we may see and experience differences in our day-to-day lives, we have learned a great deal from this struggle about how we can become even more efficient and in many ways more independent in our ability to be productive tools in the larger economy. Some of these changes or trends could even play out in your portfolio with some of the companies we own. Example scenarios could be:

- Need to spread workers out or provide personal offices may increase office space needs long term (CREEX -Columbia Real Estate Fund), or conversely
- Less people working in offices and more flexibility to work from home requiring cloud computing (MSFT – Microsoft)
- Less public transportation needs may be a result of more remote work creating an opportunity for automotive and energy investments (ORLY – O’Reilly Autoparts, EOG – EOG Resources)
- Increased time at home may mean:
 - More at home projects (HD – Home Depot, SMG – Scott Miracle Grow, SHW – Sherwin Williams)
 - Physical activities move from shared locations, such as gyms to our homes (WMT – Walmart)
 - We use less cash and more plastic (MA – Mastercard)
 - We spend more time online (FB, Facebook, GOOGL – Alphabet, VZ - Verizon)
- Emphasis on monitoring, managing, and maintaining our health (CVS – CVS Health) and as a population (CERN – Cerner Corporation, TMO - Thermo Fisher Scientific Inc.)

As we start to reopen we hope to see the economy and markets positively respond. Even if we are living in a “new normal”, we will once again find ways to make new highs in our lives. And as we continue to don our protective gear, don’t forget you can still see a smile behind a mask.

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