April 24, 2020

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

What another news filled week it has been. Two leading topics this week were the market's reaction to the oil war and establishing steps to reopen the economy. There was a historic oil price plunge earlier this week - for the first time ever West Texas Intermediate (WTI) futures traded in negative territory. On Monday, WTI May future contracts traded at -$37.63 before rebounding on Tuesday to close the contract at $10.01. The reason for this anomaly was due to a decrease in demand, increase in supply, and limited storage capacity. It is expected that US storage capacity is on track to be full by mid-May. Despite its rocky start, oil continued to rebound from its unprecedented sell-off earlier in the week and is back in positive territory. Recently, oil producing nations agreed to cut production by almost 10 million barrels per day. In addition, WTI future contracts for June through December 2020, are trading between $17 and $30 hopefully indicating this week was an outlier and that energy prices will slowly rise over the remainder of 2020.

There is continued discussion on how and when to reopen the economy. Some lawmakers are supportive and pushing for state economies to open so that businesses can resume operations and furloughed workers can get off of unemployment. Another 4.4 million jobless claims were filed during the week of April 18th bringing the cumulative number of claims to 26 million for the last five weeks. Certainly, opening up our economy would help furloughed workers and businesses that are on hold, however doing so is crowded with complexity. Paramount to opening doors is establishing a means to contain the virus and protecting the lives of our citizens. States and national leaders have to strike the right balance between public safety and economic necessities. On Wednesday, the National Governors Association released 'Roadmap to Recovery: A Public Health Guide for Governors', which outlines the plan for reopening their economies in a manner that preserves public safety and confidence. The Association states, "Opening prematurely—or opening without the tools in place to rapidly identify and stop the spread of the virus—could send states back into crisis mode, push health systems past capacity, and force states back into strict social distancing measures. This scenario would repeat the negative economic consequences of (the) pandemic response and reduce public confidence, further deepening a recession and protracting economic recovery."[1] Reopening will be a coordinated effort between the federal government, state health agencies, local governments, the private sector, and the public. While a divide remains among democrats and republicans on the timing of reopening the economy, ultimately, the decision will be up to each state to formulize and execute a strategy. The Roadmap to Recovery report outlines ten steps which fall into two broad categories: 1) building the public health infrastructure, and 2) creating and implementing a plan to reopen the economy.

[1] National Governors Association - https://www.nga.org/center/publications/health/roadmap-to-recovery/

Building the Public Health Infrastructure

1. Expand testing capacity and make testing broadly available
2. Strengthen public health surveillance to understand the spread of the disease and rapidly detect outbreaks
3. Dramatically scale capacity for isolation, contact tracing, and quarantine
4. Ensure the healthcare system can respond to potential surges
5. Protect essential workers and at-risk populations

Creating and Executing a Plan to Gradually Reopen the Economy

6. Develop a strong and clear communication and public engagement plan
7. Create a framework for reopening
8. Set the criteria and define the stages for reopening
9. Build partnerships between public and private sectors to implement the plan
10. Prepare to reassess and improve the plan frequently

A full view of the report can be found here.

Government Relief Continues

US monetary and fiscal policy remains accommodative in an attempt to contain the economic fallout from COVID-19. This week, the House approved, and the President signed into law, more than $480 billion of additional funding. The majority of the aid will be used to fund two already depleted small business relief programs - $321 billion is dedicated to a round two of the Payroll Protection Program (first round of funds ran out last week), with $60 billion of the $321 billion specifically earmarked for medium, small, and community lenders. An additional $60 billion is reserved for the Economic Injury Disaster Relief program which grants businesses that are experiencing temporary loss of revenue an advance up to $10,000 that does not need to be paid back. $75 billion of financial assistance will be provided in emergency relief for hospitals and $25 billion to fund the expansion of additional testing. This is the fourth round of coronavirus relief bills in less than two months, totaling $2.7 trillion in federal funds.

As the focus continues to be on providing relief to our small businesses and hospitals and setting out a plan for reopening our economy, researchers still struggle to find a consistently effective drug to treat the coronavirus. Recent testing of the anti-malaria drug chloroquine, and its derivative, hydroxychloroquine, often used to treat rheumatoid arthritis and lupus, was cut short after some patients developed irregular heart rates and nearly two dozen of them died. We reported last week news of Gilead Sciences drug, Remdesivir, starting to show signs of effectiveness in treating the coronavirus, but a Chinese trial showed that the drug had not been successful, according to draft documents accidentally published by the World Health Organization.[2] According to Johns Hopkins, there are no proven therapies to treat COVID-19, which has infected more than 2.7 million people worldwide and killed at least 191,231 as of this morning.

[2] BBC.com

There continues to be uncertainly around the reopening of the US economy, and as such we expect volatility will more than likely continue. Volatility however, is a natural occurrence in a market cycle, it is how we respond to it that will impact our future. It is important to maintain a well-diversified portfolio, uphold a long-term perspective, and stay the course. The ability to provide sound counsel during uncertain times is vital in the client relationship, and that is why we are here with you every step of the way. We take a long-term view of the market and ensure you are set up properly based on your unique situation.

Keep searching for those silver linings – we hope you continue to stay safe and healthy and please contact your Relationship Manager with any questions or concerns.