

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

There's been a flurry of grim news thrown our way recently between the rise in COVID-19 cases, market reactions, and economic effects but this week we saw some improvements. The virus outlook appears to be improving with the number of new daily confirmed cases dropping globally in recent days. The stock market had its best week in 11 years - the Dow's best week since 1938 and S&P 500 since October 1974. All sectors were higher, with financials in the lead. To top it off, the Fed announced today another \$2.3 trillion in programs to support the economy, including the Payroll Protection Program and financial support extending to and beyond small businesses (including those with less than 10,000 employees or less than \$2.5B revenue). Additionally, the Fed announced it will provide loans to states and municipalities in a proactive response to backstop the economy. The Fed has acted powerfully to get the markets working again and in general, they have responded positively. These actions reinforce the Fed's willingness and ability to support areas of the economy where they have never ventured in the past. Chairman Powell commented the Fed will continue to forcefully, proactively, and aggressively support our economy until we know we're on the road to recovery.

On Wednesday, Dr. Fauci White House Health Advisor, highlighted signs of stabilization and remarked after this week we should start to see a turnaround. He stressed the importance of mitigation strategies (staying home, proper hygiene, social distancing, etc.) because there is no doubt these efforts are having a positive impact on the spread of the outbreak. There will continue to be short-term struggles though as we continue to see unemployment claims rise with three straight weeks of significant submissions totaling 16 million (most have been classified as "temporary"). Our economic future will depend on the path of the coronavirus, how we are able to contain it and ultimately lessen the spread. In the short-term, the anticipation is that the second quarter will be weak because businesses are shut down for the time being and there is low economic output. When the virus however runs its course, there is belief our economy will rebound and rebound quickly.

In prior letters we've referenced the difficulty of timing the market. This week the S&P 500 re-entered "bull market" territory with the market up 20% from the near-term bottom reached on March 23<sup>rd</sup>. This is a good example of the trouble with timing the market, you would have had to time the sell perfectly on February 19<sup>th</sup> and buy back into the market at the exact right time on March 23<sup>rd</sup> in order to fully benefit. In between that time you could have easily been deceived by some of the daily moves that may have steered you in the wrong direction. The message reinforced here is, it's time in the market, not timing the market that allows you to reach your goals. You could miss some of the market's best days and lose out on opportunities to grow your portfolio by trying to time the market. Pullbacks happen and staying the course helps you ride out volatile periods.

## Using the Past to Help Understand the Future

Volatility happens, just 2.5 weeks ago we reached what may have been the bottom of the market, a decline of 34%. It's been a bumpy road, but if you stay invested and weather the storm, you will reap the benefits. For example, in the chart below you'll see historically among periods of overall decline in the market, mixed in are some of the best return days - seven of the best days since 1995 happened in this last month!

### THE BEST DAYS ARE OFTEN MIXED WITHIN SELL-OFFS

50 Best Days For S&P 500 From January 1, 1995 - March 31, 2020								
Rank	Date	S&P 500 Return	Rank	Date	S&P 500 Return	Rank	Date	S&P 500 Return
1	10/13/2008	11.6%	18	1/3/2001	5.0%	35	10/15/1998	4.2%
2	10/28/2008	10.8%	19	12/26/2018	5.0%	36	11/4/2008	4.1%
3	3/24/2020	9.4%	20	3/10/2020	4.9%	37	3/12/2009	4.1%
4	3/13/2020	9.3%	21	10/20/2008	4.8%	38	9/19/2008	4.0%
5	3/23/2009	7.1%	22	3/16/2000	4.8%	39	2/24/2009	4.0%
6	11/13/2008	6.9%	23	8/9/2011	4.7%	40	8/14/2002	4.0%
7	11/24/2008	6.5%	24	10/15/2002	4.7%	41	10/1/2002	4.0%
8	3/10/2009	6.4%	25	8/11/2011	4.6%	42	12/2/2008	4.0%
9	11/21/2008	6.3%	26	3/2/2020	4.6%	43	10/11/2002	3.9%
10	3/26/2020	6.2%	27	5/10/2010	4.4%	44	8/26/2015	3.9%
11	3/17/2020	6.0%	28	4/5/2001	4.4%	45	9/24/2001	3.9%
12	7/24/2002	5.7%	29	1/21/2009	4.3%	46	12/5/2000	3.9%
13	9/30/2008	5.4%	30	9/18/2008	4.3%	47	4/18/2001	3.9%
14	7/29/2002	5.4%	31	11/30/2011	4.3%	48	9/1/1998	3.9%
15	12/16/2008	5.1%	32	10/16/2008	4.3%	49	12/8/2008	3.8%
16	10/28/1997	5.1%	33	3/18/2008	4.2%	50	4/9/2009	3.8%
17	9/8/1998	5.1%	34	3/4/2020	4.2%			

Source: Strategas

Uncertainty remains the biggest issue – uncertainty surrounding the health of our citizens, the subsequent near-term impact to our economy, and the resulting economic shutdown's impact on corporate profits. There has been an unprecedented coordinated monetary and fiscal response to provide a safety net to our people, businesses, and municipalities. The fruits of those efforts are being seen with positive reactions in the market. What remains a top focus is flattening the curve, ramping up testing, finding an effective anti-viral treatment, and ultimately a vaccine so that as a country we can look ahead to reopening our businesses, our economy, and returning back to a state of normalcy.

In the coming weeks, we will begin another earnings season that will provide a window into the economic shutdown's impact on the profitability of corporate America. The economic and earnings reports will be jarring to investors much the same way the market's violent and swift decline was in February and March. Keep in mind that markets are forward looking and they price in the expected worst case scenario. With that in mind, we believe that the financial markets have already discounted much of the economic damage at current levels.

While we believe our economy will rebound and perhaps rebound quickly, we can't predict when. Until then we must stay home and stay healthy to get the virus under control which will eventually make it safe to go back to work and open businesses. We're not in the clear yet, the good news is coming in fits and starts, but we are hopeful we are moving in the right direction.

IMG will be closed for the market holiday on Friday, April 10, 2020 for a well-deserved respite. We will be back and hard at work bright and early Monday morning, April 13, 2020. From all of us at IMG, we hope you are healthy and we wish you a Happy Easter and Happy Passover.

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