

WEEK IN REVIEW

FRIDAY, MARCH 27TH 2020

- The markets climbed for three consecutive days this week after a record monetary and fiscal policy was announced. Monetary stimulus currently stands at >1 Trillion of liquidity provided by the Fed and treasury in the form of increased money supply, and asset purchasing programs of government, agency, and investment-grade private sector assets. The fiscal program currently stands at 2 Trillion of aid. Lawmakers in the house have approved the bill and it now sits with the President for his signature.
- The three-day rebound within markets on Tuesday, Wednesday, and Thursday of this week, have been the quickest in nine-decades. The sharpness of this uptick matches that of the preceding decline. The average market decline lasts roughly 1 year, with the subsequent recovery requiring roughly 1 ½ years from a 20% trough.
- Immediate liquidity injections by US monetary policy makers has stabilized and maintained some normalcy in financial markets. The gridlock in corporate credit market stabilized after regulators essentially announced that they were ready to purchase unlimited amounts of government debt. New credit issuances from NKE, MCD, PFE, CMCSA, and MA were able to obtain rates similar to those prior to the pandemic outbreak. Some were able to issue at improved rates as investors begin to seek high quality, yet high yielding investments.
- The waterfall decline of markets has abated, partially due to stimulus, and partially due to an abatement of algorithmic trading by systematic investors. Traders from Credit Suisse's prime brokerage platform suggests that clients have reduced their equity exposure by 45% when compared to the prior month. The steepest pace of exit roughly corresponds to the days of sharpest decline in markets and increase in volatility. This de-risking process appears to have abated in recent days as systematic investors have reached targeted exposures.
- The 3-month benchmark T-Bill rate fell to its lowest level in two decades, currently hovering around -0.05%. Ten-year treasuries closed at 0.74% on Thursday, coming off its March 9th bottom of 0.50%. While concerns mount about negative rates in the US, its regulators still maintain a buffer against global rates. The entire Eurozone curve is below zero: -0.74% (1yr), -0.49% (10yr), -0.04% (30yr).

We believe that volatility will continue into foreseeable future and that the positive performance of this past week should not be extrapolated as a sustained recovery. Markets will continue to test current support levels as the medical condition continues to unfold. As we have mentioned in past conversations and email updates, the slope of new cases in the US would need to decelerate before we can project a gradual return to normal functions in daily life, including business activities and education.

Market timing is extraordinarily difficult, with most investors missing either the upside or downside. Those that suffer the greatest, misjudge on both ends. With that as context, we believe that the repair to public health will need to show some concrete statistics before the current volatility will demonstrate a sustained decline. The best approach to accommodate current markets is to stay well diversified within asset class, and across asset class. This is represented by balance to growth/value/quality within equities, and exposure to high quality fixed income assets that are tied to strong balance sheets or collateral.

Consistent with past recoveries, we expect a sharp rebound in those assets that have been hardest hit. However, history has taught that tactical trading around such rebounds has not provided the risk/reward tradeoff that serves long term investment goals. We remain cognizant, but cautious of these opportunities.

We will continue to provide weekly market updates. In the meantime, you can access our thought leadership pieces on our [Insights](#) page and by following us on [LinkedIn](#).

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