Financial & Economic Review

The first quarter of 2020 brought a long awaited market retracement for the broader markets in the U.S. and worldwide. As we anticipated and had been mentioning for several quarters, it took an exogenous event, completely unrelated to the financial markets to trigger the pullback. The worldwide emergence and spread of the coronavirus COVID-19 from Wuhan, China to almost every corner of the globe, shook markets and stifled the prospect of future revenue growth for many companies, while at the same time putting the solvency of other companies in jeopardy. In January the U.S. was implementing a travel ban to China and other select regions of the world, as it was reporting its first virus case. Since mid-March, a large swath of the U.S. has been locked down to prevent a massive rapid spreading of the virus. The main fear is in the unknown of how virulent and contagious this pandemic will ultimately be and the casualties that will surely follow. The 2020 Olympics has already been delayed until summer 2021 and many other popular and highly attended sporting events are surely going to follow suit with delays or outright cancellations of games and events. As the quarter drew to a close, Congress passed the first stimulus package, expected to be in the form of cash to assist individuals and businesses trying to cope with an almost complete economic shutdown.

Two of the more noteworthy occurrences in Q1 were in relation to U.S. interest rates and the price of oil worldwide. To combat economic activity being voluntary suspended, the Federal Reserve lowered interest rates twice to end the quarter at 0.00%-0.25%. The 10-yr Treasury rate reflected this action, closing at 0.70%, a decrease of 63.5%. As demand is expected to come to a virtual halt, crude oil traded lower to $20.48/barrel, a 66.5% reduction from last quarter's close. In response to the fear seen in markets, gold traded 4.1% higher to close the quarter at $1,578.93. All equity sectors closed in the red, with Energy and Financials dropping the most, -50.3% and -34.7% for the quarter. The best performing equity sectors were healthcare and technology, losing -13.4% and -14.4%. The S&P 500, Dow Jones Industrial Average and NASDAQ Composite Indices decreased -19.6%, -22.7% and -13.9% for the quarter. Internationally, the EAFE fell -22.8%. After the selloff, sectors trading at the highest discount to Morningstar's coverage universe were Energy, Financial Service and Industrial Materials, at 47%, 71% and 73% of fair value[1]. Utilities, Consumer Defensive and Technology traded at the lowest discounts to fair value, at 90%, 88% and 86% to end the quarter. The P/E ratio on the S&P500 dropped to 19.80 versus a historical measure of 15.78, still representing an over 25% premium historically the index. We view these new lower valuation levels as a great entry point for new money and will continue to look for individual opportunities as well.

Thank you for allowing us to manage your investment and retirement assets as we continually manage the outcome of the coronavirus shutdown and look for new investment opportunities. We look forward to continually earning your trust and respect throughout 2020 and appreciate your continued referrals in 2020.

Jack A. Kennedy
Chief Investment Officer

[1] Results referenced from Morningstar.com

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