SUMMIT FINANCIAL

Investment Update for the week of March 30th, 2020

- **Coronavirus (COVID-19) Update: Reported cases worldwide continue to expand, likely for a few more weeks, despite various strict confinements, quarantines, and travel related advisories**

  - The coronavirus has resulted in more than 737,000 confirmed cases of COVID-19 around the world as of Monday morning. On top of this unfortunate list is the United States, tallying more than 142,000 positive cases. In the unwanted second place is Italy with just under 100,000, which has also experienced extreme episodes of community spread, like what is happening in the U.S. The focus of the virus in the U.S. is in New York state which accounts for about half of the cases nationwide. This information can be viewed positively or negatively, depending on the perspective taken. From a negative standpoint, our nation leads the world in officially reported cases of a highly contagious, respiratory distressed disease, of which there is no known vaccine or cure that exists yet. From a positive standpoint, our nation has been able to expand testing to more areas and has identified more infected people than in other impacted countries. This means we are better prepared to take precautionary, measured efforts to limit the spread. As of Sunday afternoon, the nation's top infectious-disease expert, Dr. Anthony Fauci, said that the timeline for the U.S. to lift the numerous localized lockdowns is a few weeks away, and dependent upon the availability of a 15-minute COVID-19 testing kit being provided.

- **Global Markets: A week of high but sustained volatility coupled with the passage of a historic fiscal stimulus bill cautiously led all markets higher**

  - **U.S. Equities** ended the week substantially higher than the week prior, despite a moderate decline of between 3%-4% on Friday. Incredibly, the market rally on Tuesday March 24th resulted in the largest one-day percentage increase for the Dow Jones Industrial Average (11.4%) since 1933 and the S&P 500 Index (9.4%) since 2008. This was capped off at the close of business on Thursday when the Dow Jones again set another record, it's best three-day increase (21.3%) since 1931. These records should not be interpreted as the end of the recent tumultuous market decline, since the CBOE Volatility Index or VIX remained at an elevated level in the 60s throughout the week, much higher than 5-year average of about 15. Much of the increase in markets for the week is attributable to the eventual passage of a $2.2 trillion fiscal stimulus package by congressional leaders and the White House. Yes, that figure began with 'tr', well surpassing the previous record-stimulus level of around $800 billion in 2009. Within the S&P 500 Index all sectors were up, including the best performing defensive utilities and industrials sectors paying attractive dividends in comparison to very low current Treasury yields. For the week small-cap stocks (11.7%) outperformed large-cap stocks (10.6%) overall while growth and value returns were mixed as measured by the relevant Russell indices. Large-cap value beat large-cap growth, but small-cap value lagged small-cap growth.

  - **International Equities** followed similar positive trends that U.S. equities showed. Developed, non-U.S. equities worldwide reported strong returns as the MSCI EAFE Index rose by 11.2% in USD terms. That far surpassed riskier emerging markets as the MSCI Emerging Markets Index was up close to 5%, albeit positive but less impressively than developed markets. China, infamously responsible for the origination of COVID-19, is beginning to emerge from its quarantined self at an increasing rate. Schools and restaurants nationwide are reopening more frequently, and its economy is coming back to life. The MSCI China Index advanced in USD terms by 4.7%.

- **Credit Markets** also advanced for the week due to declining yields. The 10-year U.S. treasury yield fell 0.26% over the week to end at 0.68%. This yield decline was largely the doing of the Federal Reserve's commitment to purchase Treasuries and to facilitate increased market liquidity. Both the Fed's promise to purchase corporate debt in addition to Treasuries, and the passage of the fiscal stimulus improved sentiment for new issuers to come to the market. Consequently, increased demand in conjunction with the additional supply was a positive catalyst for credit markets. For reference, the Bloomberg Barclays U.S. Investment Grade Corporate Bond Index appreciated by 6.1%. In a change of pace following two negative weeks, municipal bonds once again rebounded posting strong gains led by higher-quality issues. Demand picked up which decreased the overall supply pool. The Bloomberg Barclays Municipal Bond Index posted a 7.9% weekly gain.

- **Economic Data/News: A record fiscal stimulus spurred new optimism, but reality quickly reappeared as the most weekly new unemployment claims ever were filed in the U.S. in the week ending on March 21st**

  - **U.S.**: The week started off rocky as the proposed stimulus bill temporarily stalled in the Senate. However, on Tuesday the Speaker of the House, Nancy Pelosi, said a near deal was imminent. Once passed, the $2.2 trillion package details were shared, which include assistance to many different areas of the U.S. economy, including $350 billion to help small businesses and up to $1,200/$500 provided to most adults/children in the country based on each adult's income level. It also expanded unemployment payments to people affected by the COVID-19 pandemic and added additional funding for different health care providers. In a convincing fashion, the bill was passed by the Senate in a unanimous vote on Wednesday, and then by the House of Representatives on Friday. Although the stimulus bill is impressive sounding, it came late to the game as the pandemic already caused a record number of people in the country to file for new unemployment claims. On Thursday morning, it was announced that 3.28 million Americans filed for unemployment during the prior week, a 370% increase from the previous all-time high of 695,000 cases in 1982. This also shattered the estimated number of claims, 1.6 million, by more than double. Fortunately, the stimulus aimed to alleviate some of the hardships on those people affected in the short-term until the economy regains its strength.

  - **International:** In Europe, finance officials suspended some provisions allowing governments to increase spending if they choose. They also discussed, but did not agree on, a unified strategy to preempt a looming European recession. Separately in Tokyo, coronavirus cases surprisingly spiked last week, prompting its governor to request that local universities delay the start of the school year, scheduled to begin in April. Likewise, the Japanese government downgraded its assessment of economic conditions from moderate to severe. The government is simultaneously working on implementing a similar stimulus package to the U.S. totaling ¥56 trillion, another unprecedented amount. Interestingly China has not put together any stimulus package themselves, but the idea has been discussed and is expected to take hold eventually. Their cumulative country-wide government revenues fell between 8%-11% on a year-over-year basis.

- **Odds and Ends: Fauci warns the U.S. of an incredible virus outbreak, 2020 Olympics delayed for one year, the class of 2020's job market opportunities disappeared almost overnight**

  - Many people today have heard from **Dr. Anthony Fauci**, considered to be the nation's top infectious disease official. Standing beside President Trump during most news briefings, and quoted in many publications or articles, he warned the nation that the disease could kill between 100,000 and 200,000 Americans while sickening millions more based on projections he's examined. Supporting this, federal authorities have issued official guidelines for all residents in the tri-state area to refrain from all non-essential travel until at least April 15th. Since this virus has upended life as we know it today, everyone is looking forward to its passing.

  - After a long deliberation, the **Tokyo 2020 Olympic Games** scheduled to take place in July 2020, are likely being delayed until July 2021. This decision was agreed to by Japan's Prime Minister Shinzo Abe and the International Olympic Committee President Thomas Bach last week. In addition, the athletes who've earned their spot on their own country's Olympic roster, will keep those slots for the games taking place next year. It is then up to each athlete to decide if they are able and want to compete in the rescheduled games.

 - At the beginning of the year, many college seniors were preparing to internship or even receive official job offers in a flourishing economy. More recently these jobs have disappeared, school graduation ceremonies are canceled, and upwards of three million Americans are newly unemployed. Unfortunately, the soon-to-graduate seniors have begun wondering if they should continue job seeking. But career counselors advise those students to continue searching and networking throughout their industries even though the future job offers may not be what was originally expected. Most importantly, change and adaptation is challenging for many people to willingly accept given the circumstances.

- **Resource of the week:** This interview with Michael Mauboussin of Counterpoint Global was rather interesting as it focused on a thoughtful and thorough framework that investors should think through before acting irrationally with any amount of capital in the markets. His approach to evaluate all variables that may impact a given market crisis or even to value an investment is quantitative in nature, and quite refreshing. What struck with me was his comment, "what should be calming, is to do math" implying that numbers don't lie and easy to understand. As always, please feel free to submit suggested resources to smelnick@sfr1.com.

   - **Link**: https://open.spotify.com/show/3q6PrjHVfRzpD2lN1g2XRU?si=Fyf4H0ssTDyyROjz6qoIkg

Sources: Morningstar Direct, The WSJ, T. Rowe Price Global Markets Weekly Update, Worldometer

DISCLAIMER