

Wentz Weekly

March 16, 2020

Historic 11 Year Bull Market Ends



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The world is in an unprecedented period of time, with a health crisis now labeled as a global pandemic which is having a significant impact on the economy and markets. Market turbulence continued last week with the S&P 500 finishing down 8.8%, 10-year treasury yields falling to a low of 0.39% and oil dropping 29% in the week. Fiscal and monetary measures have been implemented and more is expected to come in the days and weeks ahead to continue to support the markets and economy. Many states have implemented quarantine measures, including Ohio going as far as shutting down restaurants, bars, gyms, bowling alleys and movie theaters.

President Trump held a news conference late in the afternoon Friday to address the concerns with the coronavirus, issuing a State of Emergency which will free up additional funds for the efforts. Additionally, President Trump announced the U.S. will waive laws to enable telehealth, waive other rules around hospital stays, using Google to direct patients to drive-through testing, and waiving student loan interest on federal loans. The next questions will be what sort of fiscal stimulus the government will announce over the coming days or weeks in effort to support the economy. There have been talks of a payroll tax holiday where payroll taxes would drop to 0% for the remainder of the year, but nothing is agreed upon at this time.

In an unscheduled meeting, which is now in lieu of the scheduled FOMC meeting this week, the Federal Reserve announced a massive monetary stimulus plan. The federal funds rate was cut 100 basis points to a new range of 0%-0.25%. Chairman Powell said the treasury market was seeing times of stress and illiquidity which could spill over into markets that directly affect consumers and businesses, which led the Fed to begin another quantitative easing program. The Fed plans to purchase \$500 billion of treasuries and \$200 billion of mortgage backed securities in effort to assure liquidity, alleviate the stress and support the flow of credit. The markets are reacting as if the Fed told us things are worse than what was originally thought. The fact is the Fed is going all-in on the measures it can take to support the financial system.

The Fed's move over the weekend are on top of the \$1.5 trillion announced last week to support the short-term funding market. The Fed stated this measure was to address highly unusual disruptions in Treasury financing markets associated with the coronavirus outbreak. The intent is to increase the amount and change the maturity composition of its direct purchases. The plan includes repurchase operations, first with \$500 billion of 3-month repos and then with \$500 billion of 1-month repos.

In addition to the Federal Reserve's moves, Central Banks around the world have made decisions to support financial systems. The Bank of Japan doubled its purchases of equities, in the form of ETFs, to 12 trillion yen, while holding its key interest rates steady and introducing a new lending program to help businesses. The People's Bank of China injected 100 billion yuan into the financial system to assure proper liquidity.

Overnight we received some of the first economic data reports for the month of February out of China which, as expected, shows activity contracted sharply. Industrial output declined 13.5% in the January-February period, compared with a 6.9% increase in December and worse than the 3.0% drop expected. Retail sales fell 20.5% in the month versus the expected 5.0% drop. Finally, fixed-asset investment fell 24.5% in the month compared to the 1.0% drop expected. We will continue to monitor the data from China to measure the economic impact, and it is important to note we will see a large decline in activity in the U.S. as well when data reports are released in April – June.

Company News

DocuSign reported fourth quarter results with a beat on revenue and earnings estimates. The company is also increasing current quarter and current year forecasts versus prior.

Broadcom reports earnings and revenues that were lower than expected. CEO said the semiconductor backdrop is improving and they "did not see any material impact on the business in the quarter due to the coronavirus, however visibility in global markets is lacking and demand uncertainty is intensifying." The company also pulled guidance due to the uncertainty.

The Week Ahead

Conditions will get worse before they get better. A handful of companies report earnings this week but the market will brush that aside. The focus will continue to be whether or not the number of COVID-19 cases continue to rise at an exponential rate and when they plateau. The markets will look for additional signs of stress in the short-term and treasury markets, but this will be unlikely as the Fed took an all-in approach. Economic data releases include February Retail Sales, along with several housing reports including Housing Starts, Existing Home Sales, and the Housing Market Index.

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Market Turbulence – Additional Thoughts



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- Markets saw one of the most volatile weeks ever last week. On two separate occasions trading was halted after triggering a level 1 circuit breaker, which happens when the S&P 500 drop 7% in a session. After significant day to day moves, the S&P 500 finished the week 8.8% lower and is now off 20.1% from record highs on February 19th as of Friday, March 13th.
- Conditions will get worse before they get better. We are seeing some areas of the U.S. shutting down almost everything except essentials. What governments are trying to prevent is a situation in which Italy is dealing with. The U.S. only has so much capacity in the health care system and a sudden influx of cases increases the chance there will not be enough capacity to help those that need it most.
- There is an extreme amount of uncertainty regarding how much the virus will spread and the economic impact it will have. The markets are moving very quick and we have even seen the beginning of signs of stress in certain markets, although it is not a concern at this time.
- The Fed has stepped in to assure liquidity and make sure financial markets function properly. They have essentially told the market they will do whatever it takes to prevent stress in the financial system. Remember, banks are very well capitalized right now following the financial crisis, so a credit crisis as we have seen in 2008 is highly unlikely.
- What is more likely is conditions similar to 9/11 when economic activity was halted for a period of time and then gradually returned to normal.
- We have seen action by the Central Bank via monetary policy, the next step would be to see action by the government via its fiscal policy. Discussions are ongoing, but what President Trump has proposed is a payroll tax holiday where payroll taxes could be cut to 0% for the remainder of the year, providing stimulus to consumers. Any sort of measure like this will be important to see consumer spending instead of saving.
- The financial markets will most likely not settle down or bottom until we have better clarity on the economic impact and impact on company's earnings. Companies will not be giving guidance until they have more clarity on the future, and no one knows when that will happen. Keep in mind volatility will continue for the remainder of the year.
- The computers and exchange traded funds (ETFs) have been exaggerating any move, both up and down.
- Until then, it is important to remember your goals, objective and to stick to your long-term investment horizon. We will continue to monitor client's accounts on an individual basis.

Out of an abundance of caution and following the lead of the Governor of Ohio, we ask there are no face-to-face appointments until after April 1st, or until the Governor gives the ok for certain activity to return to normal. Please note we are, and will always be, here for your financial needs. If there comes a time you need funds, we have the ability to send forms electronically via our e-signature platform.

While much of our country seems frozen with fear, your team at Wentz Financial Group is working every day to evaluate your investments, review your financial plan and stay in constant contact with you to help make sure when we come out of this, we are best positioned to rebound in the most efficient and effective manner possible for you.

If you have any questions or concerns, please do not hesitate to reach out.

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