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Subject: VALUED CLIENT MAIL LIST: Economic Perspective - In The Eye of the Storm Part 2

HollisWealth

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IN THE EYE OF THE STORM: PART 2
SOME PRACTICAL CONSIDERATIONS DURING THIS PERIOD OF MARKET TURMOIL

Source: Google Images

We are now roughly entering the 4th week of heightened public awareness and response to the Covid-19 virus crisis and much is being learned and in play. From an economic perspective, this is unlike the 2008 recession where over-extended financial credit conditions caused the financial markets to decline into an extended down cycle. There was no risk to human life. Instead, on this occasion it is a human health worry that is being projected to the financial markets where companies have, until now, been operating business as usual and not under undue credit pressure.

This is an important distinction because we're in the midst of the crisis which is still emerging although, unlike a credit recession, can be better identified from a timing perspective. In a recession, companies experience bankruptcies and employees lose their jobs as liquidity becomes scarce. It takes a very long time to re-build markets, companies and employment; it feels is a bit like trying to save for a down payment on your first home purchase.

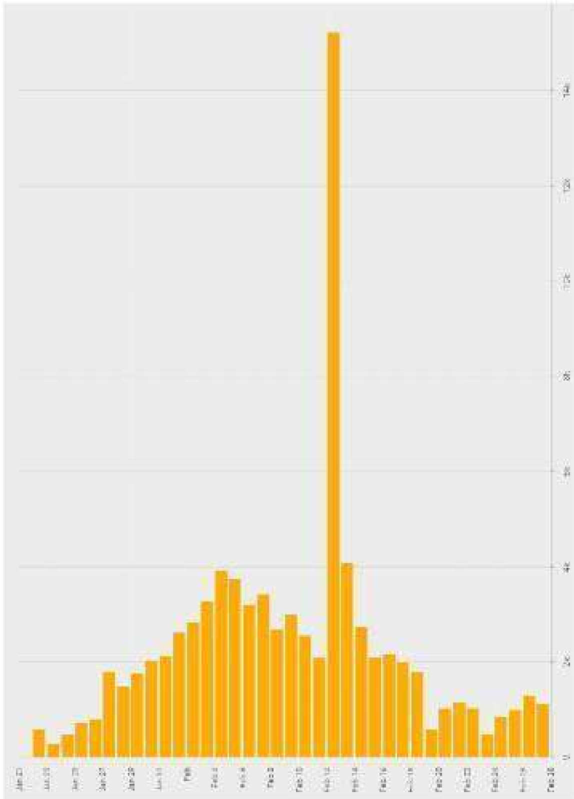
In the current crisis, companies have up until now been operating well within their business parameters but are now voluntarily restricting or shutting down their operations for a period being measured in weeks to help mitigate a human condition instead of the years it took to recover from the last recession. However, this disruption will, inevitably, contribute to the likelihood of another recession.

The financial markets are what is known in economic terms as a leading indicator; they tend to react ahead of events. Anticipating business is going to slow down possibly as long as through to the summer, they have sold off now in expectation. Moreover, because of the technological mechanisms in the market today such as program trading, response has been even faster and has contributed to an over selling of the market. However, when the market decides conditions are likely to improve, we can also expect them to respond in kind on the upside. <u>That is why it is important not to panic sell and invest according to longer term objectives rather than near term events.</u> **We must not forget that when someone sells someone is also buying and will greatly benefit from the eventual recovery.**

So what is the market looking for right now?

1. **Government response and action to combat the crisis.** This has reached new levels of mitigation including restricted travel and self-quarantine action which medical experts are saying is necessary to slow down the spread.
2. **A reduction in the current rate of viral spread;** evidence is coming from the initial infected zones that this is occurring; based on his research, Senior economist Martin Murenbeeld has estimated a reduction in the number of new cases will start to occur throughout North America in late May (February 2020 Economic Monitor, Murenbeeld and Co.). An informative site recording daily global virus statistics based on World Health Organization data is available https://experience.arcgis.com/experience/685d0ace521648f8a5beeeee1b9125cd .

Incidence of New Cases in China



Source: https://experience.arcgis.com

3. **Progress on medical mitigation.** Although it is too early to assess, human trials have begun on test vaccines.
4. **Liquidity to keep the economy going.** Central banks around the world have committed to providing ample money in the system to be available not only for the cost of medical mitigation but to allow companies and employees to get through the crisis timeframe. In particular, the central banks have instructed individual banks not to use the cheap money for share buybacks or other activities which don't benefit the general public.

What's the Takeaway?

It is hard to imagine things getting better when we're in the midst of the storm. All market sectors besides the stock market, including gold, oil, interest rates and the dollar are under tremendous pressure at this time. Real estate is a lagging indicator and may eventually also show comparable weakness as consumer confidence declines.

However, numerous initiatives are in play which have great potential to deal with the crisis on many levels. The market is saying "show me" to the world.

Therefore, it is best not to panic sell or second guess the market direction at this time and to allow it find its course. More importantly, patience should be exercised and focus should remain on the longer objectives which will succeed present events.

Regards

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