



Financial Market Update – March 9, 2020

As we move through one of the most volatile trading days in recent years, we still believe that the global economic shock from the COVID-19 epidemic will most likely be transitory in nature and will not likely alter longer-term economic activity.

This morning's stock market sell-off and bond market rally is being exacerbated by an oil price war that began yesterday between Saudi Arabia and Russia. Each country is poised to flood the market with cheap oil at a time when demand has been declining due to the outbreak of the virus. At current price levels, both countries are losing significant money by the minute. Therefore, it is in both country's best interest to reach an agreement to stabilize prices as quickly as possible.

The disruption from this virus represents a temporary setback for the global economy. It will not permanently change the global economy's natural tendency to grow. Once this situation settles down, businesses will still have the incentive to produce goods and provide services in order to profit in a free-enterprise system. While this abrupt sell-off in stocks and oil could certainly lead to a technical recession (two consecutive quarters of quarterly contraction in Gross Domestic Product), the spread of the virus will eventually subside and the global economy and financial markets will be left with low interest rates, low oil prices, and accommodative monetary and fiscal policy. All of which are typically catalysts for a rebound in economic growth and stock prices.

All asset allocation portfolios remain significantly underweight risk-based assets and overweight bonds and cash. While no investment process can completely avoid losses, especially in times of extreme volatility, we want to reassure you that we have an investment discipline that revolves around fundamental analysis, valuations, and technical analysis. Over the past few weeks, we have been meeting on a daily basis to evaluate the key tenants of our investment process and what actions we will undertake if stock prices continue to deteriorate, stabilize, or start to rebound.

While there is no denying that this type of volatility is unpleasant as no one likes to see their account values decline, times like this validate the importance of investing in an asset allocation that is consistent with each investor's risk tolerance and long-term investment goals. We will continue to keep you updated on our thoughts and any future portfolio changes.

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