

PETERSON FINANCIAL SERVICES

Limited Liability Company ♦ Registered Investment Advisory Firm

FINANCIAL
FOCUS

THIS COMING

CORONAVIRUS

RECESSION

WILL BE

PAINFUL BUT

NOT FATAL.

In This Issue:

- Quarterly Market Recap
- The risk now is that the medicine will be worse than the disease for a greater number of people.
- Some “solutions” will work, while others will be ineffectual and wasteful.

First Quarter 2020

April 1, 2020

QUARTERLY MARKET RECAP

Brutal doesn't begin to describe the market action of the first quarter. It was the worst quarter on record for the DJIA. After setting new all-time index records midway through February, the markets collapsed under the weight of the expected economic damage of the Covid-19 virus. For the last quarter, the DJIA dived 23.20%, the S&P 500 plunged 20.00%, the NASDAQ cratered 14.18%, the Russell 2000 contracted 30.89%, and foreign equities retreated 24.16%. There was nowhere to hide. The Federal Reserve and all levels of government reacted by throwing money all over the place in a panic. As a result, the Barclay's Aggregate Bond Index rose to a

3.27% gain. Positive prognostications for the coming year went out the window. The result of all this is that it is now beyond dispute that the global economy, and America's along with it, will slide into recession this year. The only two questions, and what the market is now trying to price, are how bad it will be and how long it will last. Currently, that is unknowable, so expect continued near-term volatility.

The nature of the problem - a pandemic health crisis - and the nature of the market action, created an atmosphere of panic that exacerbated the concern. At this point, the presidential election season has taken a back seat to these concerns.

AMERICA'S INNOVATIVE AND FLEXIBLE ECONOMIC SYSTEM WILL PROVE ITS WORTH IN THIS CRISIS

We wish this was an April Fool's Day joke, but unfortunately, it's anything but. Never in the recorded history of financial markets have all sectors collapsed so intensely, so quickly. This combination of gigantic losses over a compressed time period, punctuated by alternating huge movements to the upside created an atmosphere devoid of reasoned analysis or the ability to ascertain on a given day whether it made more sense to sell or hold, or later on, even buy! No reliable pattern from the past could be relied on.

It behooves us to be reserved in our criticism of the solutions that government leaders have deployed. The fact is, no one has ever faced anything like this. Even the Spanish Flu pandemic of a century ago provides only limited comparison as our global economy is now far more integrated and events unfold at a much quicker pace.

However, there are some things we can conclude were done in the height of panic and for political reasons that shouldn't have been done. Besides diverting resources to efforts that would have been more effective, the problem is in the unwinding of the

programs. Throwing money at everyone under some arbitrary income level, whether or not they need it or even ask for it, is counter-productive, expensive, unnecessary and creates a precedent of fiscal abuse. Lowering interest rates to near zero will not solve our problem. Economic activity is not falling off a cliff because borrowing costs aren't cheap enough. It is contracting because the government has ordered us to stay home and close businesses. Solutions should have some semblance of relation to the problem.

Further, increasing unemployment benefits from \$400 per week to \$1,000 per week is sheer lunacy. This works out to \$52,000 per year. This will absolutely create perverse incentives to not go back to work when this is behind us, if the job you left or later would go to pays less. Don't hold your breath that this will be quickly scaled back. Countless studies reveal that extending the amount claimed or period of payment for unemployment compensation delays improvement of the unemployment rate. It is basic human nature. If you cannot work for more money than you get not working, many choose not to work.

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And it's unnecessary. We've just begun this journey and there is no indication that normal levels of compensation will be inadequate. It's not the reason you've lost your job that matters. It's the fact that you've lost it. So why do this?

On the other hand, the Federal Reserve's injection of liquidity into the economy is absolutely the right thing to do. Positioning itself as the lender of last resort is a legitimate function of the central bank. Ditto having the federal government provide low-interest loans to companies so they can survive the shutdown period so laid off workers will have jobs to return to. This aid structure makes sense as only those who need it will partake of it, and there is no incentive to abuse it as modest costs will be levied, as they should be. These actions are not bailouts or slush funds as prominent critics suggest. These companies didn't do anything wrong and weren't fiscally irresponsible, as those terms imply. You can't blame United Airlines, who continues to have overhead costs, for not having the revenue to cover those costs when the government has grounded flights!

And contrary to other ridiculous narratives we've heard, this does not confirm the need for socialized medicine. Quite the contrary, the countries who have been burdened with these systems for decades are the ones who are the least able to cope and experiencing the worst health disasters. Look no further than Britain's NHS or Italy, with their shortages of beds and rationing of care leading doctors to decide who to treat and who to let die, to see how this ends up. Rather, in the coming weeks we will see private sector health providers, hospitals, drug

companies and device makers rise to the occasion to defeat this scourge. Already, the inherent flexibilities of the free markets are jumping into action with auto manufacturers banging out ventilators, booze distilleries producing hand sanitizer, drug companies testing early-version vaccines and cures, device makers coming up with testing kits able to reveal results in minutes, and other heroic solutions. And, on top of this, these "crooks", as some prefer to refer to those who run these companies, are offering these products at cost and even as donations. We'd rather have those crooks on our side than not!

The financial markets will continue to attempt to sort out the long-term implications to the economy of this virus and our efforts to fight it. It appears equities are in the midst of sorting out a bottom. This does not suggest the value of corporations will rocket right back to their levels of several weeks ago, just as quickly as they came crashing down, but it may well be the onset of recovery. The sooner we disseminate more tests so we can quarantine those infected and establish a database that tracks the spread of the virus, and the sooner we bring into full use those medications that show efficacy in curing this disease, the quicker we can get back to work and return to normal. This will be crucial. We're optimistic as signs are emerging as to the light at the end of the tunnel.

Markets do not price what is happening in the moment. They price what the expected conditions will be several months in the future. And, they do so by putting investors' own money at risk, which means they aren't prone to mere wishful thinking.

"We make a living by what we get; but we make a life by what we give."

- PM Sir Winston Churchill

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Pursuant to SEC Rule 204-3 (C) of the Investment Advisors Act of 1940, we hereby offer, without cost, a copy of our "Disclosure Statement", Form ADV Part II, which is the document attached to your copy of our Service Agreement. Please e-mail us, or mail us, a written request if you'd like another copy and we'll send it in February after we update our annual filing. Also, in conformance with Regulation S-P of the Gramm-Leach-Bliley Act, we are required to provide annual notice of our Privacy Policy. Our policy is posted to our website, and is mailed to each client.
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ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we've specialized in portfolio management over the last several years, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

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