



March 12, 2020

MARKET UPDATE

Yesterday the World Health Organization (WHO) officially declared the coronavirus a pandemic as the number of infected countries continues to grow. This isn't a financial crisis as much as a global healthcare crisis. The virus is adding panic and uncertainty to an already spooked public. People have legitimate concerns and fear around the virus.

As for the stock market, count on more volatility. This level of volatility hasn't been seen since 1987 – it essentially makes the market conditions “un-investable” right now. How much lower stocks go is impossible to say. During turbulent times, it's best to just sit tight.

The Fed is bound to cut interest rates again when they meet next week. These cuts won't matter – they are largely symbolic. The federal government can't prevent the coronavirus from damaging the economy, but they will try to mitigate its effects – possibly with an additional round of tax cuts.

Global growth slowed in 2019, and was particularly weak in the final three months of the year. At this point, it certainly seems likely that global output will fall for at least the first three months of this year – putting economies at risk of a recession. The fears that people have may ultimately culminate in a global recession.

The big question is, “Will there be a recession in the U.S. as a result of this pandemic?” Nobody knows just yet. As long-term investors, the move right now is to sit and wait this out. With most of us having the goal of retirement, the strategy is to stick to our goals. This is absolutely no time to sell.

With most, at some point, the fear will pass and the markets will point to a recovery. Our portfolios have been positioned for a downturn since 2019.

What is happening right now is “panic selling” – generated mainly from the program trades that control the largest institutional assets. Our guess is this fear and the lack of confidence haven't yet run its course and that there is likely more volatility ahead. This health crisis – however significant or minor it turns out to be – will pass.

We learn from history. Not long after the crash of 1987 and 2008, we were provided with tremendous opportunities to make gains. We are certain this crisis will pass and we will be staring directly into the face of major investment opportunities.

At Kapusta Financial Group, we remain committed to putting our clients first. Please don't hesitate to contact us with any questions or comments.