

## **Silver Linings**

We observed a family this week standing together in the median at the north end of Virginia Beach waving madly at a parade of honking cars that were decorated with balloons and streamers. It was their daughter's birthday and her friends had found a creative way to have a socially distanced celebration. The 10-year-old birthday girl, festooned in a pink boa, a sparkling tiara, and yards of shimmering tulle, threw her arms up to the sky enthusiastically and danced with glee as she acknowledged each passerby.

Even as we are experiencing the worst global calamity since World War II – a novel coronavirus that has swept the world and threatens our loved ones, our livelihoods and our finances – we can still see silver linings in the midst of pandemonium. Just as the Greatest Generation was defined and unified then by patriotism and unparalleled acts of heroism, the 10-year-olds of today will look back and recognize this period as a time of tenacity, resilience, adaptability and generosity of the human spirit.

## **Hope in the time of uncertainty**

In spite of current uncertainty and the unknown timetable of the COVID-19 pandemic which has devastated economies across the globe in ways that would not have occurred when we were less interconnected, there is hope on the horizon. Our government has acted forcefully by initiating an \$8 trillion rescue package, by quickly lowering interest rates and delaying tax deadlines, and by empowering state governments to take needed action at the local level. We are finding new ways of communicating and connecting ("Zoom" is becoming the new generic term for holding virtual meetings just as "Google" became synonymous with internet searches two decades ago!) and we are adjusting to working, schooling, playing and praying in our own homes.

We recognize that the impact of this virus may impede our economy for months or even years to come. We rely to a much larger degree today on global trade than we have in the past and we are feeling the effects of these links being severed. Supply chains have been broken. Inventories have been depleted. Even finding toilet paper has been a challenge. Furthermore, the efforts to mitigate the medical damage of COVID-19 have led to an abrupt and severe contraction of economic activity around the world. Most economists believe we are already in a recession and they view the depth and length of this downturn as directly related to the commitment of governments to test for and contain the further spread of the virus.

## **A market gone wild**

After reaching euphoric peaks in early 2020, world markets began unraveling with unprecedented speed as the number of coronavirus related deaths began to climb. The US (S&P 500) and developed international (MSCI EAFE) equity markets dropped 34% and 33% from their respective 2020 highs. Emerging markets (MSCI EM) dropped 31%. Crude oil (WTI) prices dropped 67%, and the US dollar (DXY index) rose 6.5%. Since then, the S&P 500 has retraced more than half of its loss, international markets have reclaimed 40% of their drawdown, OPEC has reached an agreement on production cuts, and foreign investors have eased up on moving their cash into US

dollar denominated assets. Still, the daily dizziness of the markets has left investors shell shocked, whiplashed and worried about the financial realities of the global health crisis.

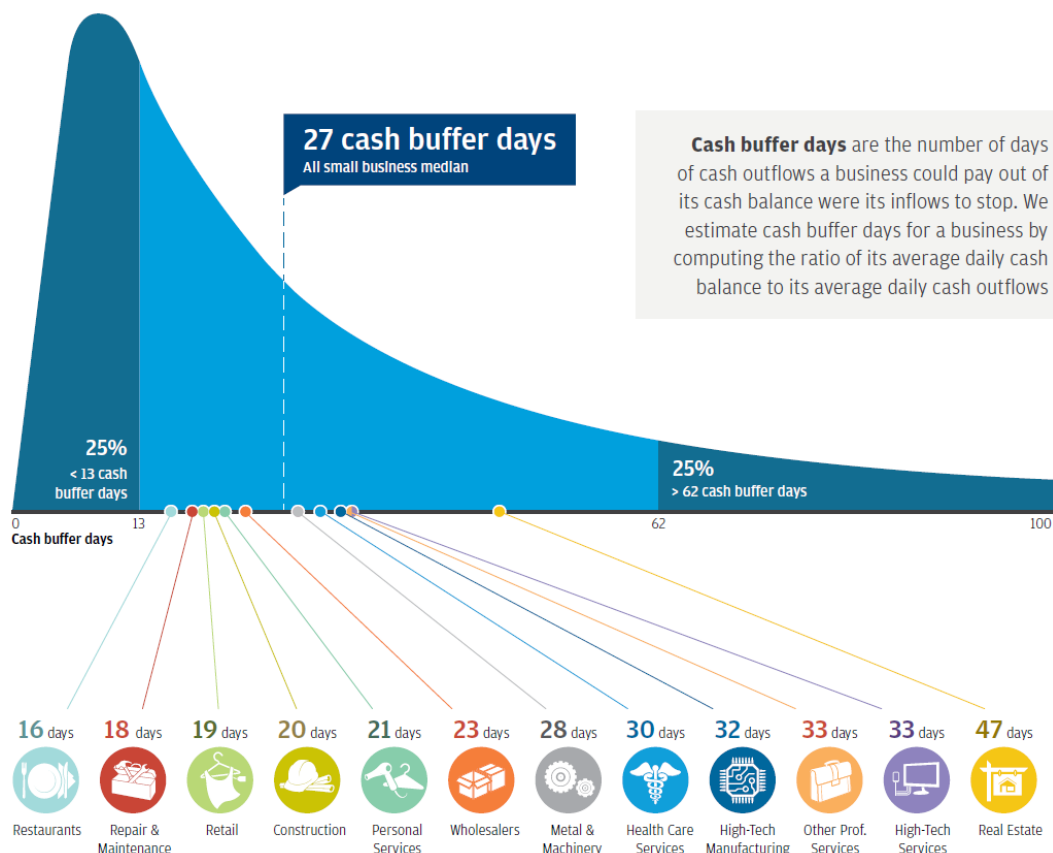
## Finance, the Fed, and fiscal fortitude

The Federal Reserve has been pulling out all stops to ensure that financial markets continue to run smoothly. In addition to lowering the Fed funds rate to 0 – 0.25%, the Fed has injected billions of dollars into the repurchase (repo) market and has been buying up both investment grade corporate bonds as well as junk bonds from companies previously rated investment grade. By becoming the bond buyer of last resort, the Fed has assured that credit markets will remain liquid and not freeze up.

Additionally, fiscal initiatives introduced by Congress by way of large spending packages have been enacted to offset the dearth of economic activity and the alarming rise of unemployment. Similar actions have taken place globally.

## Is it enough?

Despite the unprecedented fiscal and monetary actions taken by our government and governments around the world, there is yet a clear path to economic recovery in the wake of the virus's swath. The most vulnerable of victims are small businesses that operate on low margins and tight cash flow. The average restaurant owner, maintenance person, retail establishment, and construction worker has a buffer of less than 27 days before they run out of cash (see chart below).



Source: JPMorgan Chase Institute, <https://institute.jpmorganchase.com/institute/research/small-business/report-cash-flows-balances-and-buffer-days.htm#finding-3>

## **Seventh inning stretch**

One of the stranger ramifications of the virus outbreak is the cancelation or postponement of major sports events – the NCAA basketball tournament, Wimbledon, and the summer Olympics. Baseball season, America’s Pastime, is at risk. So, forgive us if we resort to a sports analogy to explain where we think we are in the progression of this crisis.

While equity and bond markets have reacted positively in recent days to the government’s fiscal stimulus, we feel that we are just in the second inning of the pandemic’s progression. To make it through the next few innings, the stimulus dollars must get into the hands of the right people at the right time. We also need to see progress in the availability and use of testing and tracking tools, the use of masks and other prophylactics, and ongoing compliance with other behaviors, such as social distancing, that have shown to be effective in limiting the transmission of the disease.

As we approach the seventh inning stretch, we must see hospital admissions and deaths level off, the reopening of schools and businesses and the cautious lifting of travel restrictions. By the eighth inning we will want to see the successful development and dissemination of a vaccine or effective countermeasure against the virus. The ninth inning will be a look back to see what we could have done better and what we should do to be more prepared in the future. We must remember that in life as in baseball, no one knows how long each inning will last. Patience and perseverance will win the game.

In summing up, we want to encourage you stay positive and believe that this crisis will eventually pass as have others. The American spirit is alive and well in every first responder, health care worker, public official, and volunteer tasked with being on the front lines of the pandemic. Meanwhile, please stay safe and be reassured that your financial assets are in good hands with your Waypoint team.

*"When I was a boy and I would see scary things, my mother would say to me, 'Look for the helpers. You will always find people who are helping.'"* – Fred Rogers