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Volume 29, Issue 1 April 15. 2020

Market Commentary

COVID-19 Ends 10 Year Expansion

The longest economic expansion in U.S. history came to a brutal end in February after persevering for more than 10 years. Its end came as a result of a self-inflicted, massive shut down of businesses and consumer mobility to thwart the COVID-19 global viral pandemic. Engineered by the federal and state governments to protect the public, the clamp down may prove to be the hardest hit to the U.S. economy since the Great Depression. Expectations are that unemployment rates will spike to 15% or greater later this quarter. The stock market does not like negative surprises or economic uncertainty, so the COVID-19 closures sent the S&P 500 spinning into one of the most rapid bear markets in history, declining by 35.6% from its peak on February 19th to its low on March 23.

Thanks to the rapid monetary and fiscal policy response our government is undertaking, the ultimate recovery is more certain and the hit to the economy less permanent than originally feared. The size of the fiscal package is huge, the largest peacetime response ever, and most likely more than enough to offset direct GDP losses as a result of the COVID-19 shutdowns. Not only are checks being sent to qualifying consumers but grants and loans to thousands of businesses are being rapidly processed. The Federal Reserve has resumed and expanded its asset purchase program to include ETFs and other credit securities to provide better liquidity to markets that have been under stress. The Fed is essentially underwriting the financial stability of the markets by limiting the potential for any major financial institution to fail. Authorities are prepared to do whatever it takes to ensure that the financial and banking systems are preserved, and that businesses and consumers are provided a bridge to the other side of the pandemic.

Regarding the COVID-19 virus, cases worldwide have expanded to over 2 million people. The good news is that according to estimates from the Institute for Health Metrics and Evaluation (IHME), the peak of hospital resources required in the United States for COVID-19 patients peaked on April 10. Individual states will have differing peaks, but the crest of medical resource demands nationally appear to be subsiding. Since we will have to live with the virus for a while longer, progress on testing, therapies and vaccines will be very important to monitor in the immediate months ahead. This will be important in determining how quickly our economy and markets can get back to normal.

On the treatment front, drug makers are racing to find a cure for COVID-19. There are 70 coronavirus vaccines in development globally, according to the World Health Organization. Three vaccine candidates are already being tested in human trials. Johnson & Johnson plans to have a single-dose vaccine candidate approved and available for broad use early in 2021. The company has a good track record on vaccines, developing ones for HIV, Ebola and the Zika virus over the last decade.

Regarding testing, Abbott Laboratories has shipped 566,000 of its highly touted “rapid” molecular tests for COVID-19 to all 50 U.S. states in less than one month. Abbott’s ID NOW COVID-19 test can deliver “positive results in as little as five minutes and negative results in 13 minutes.” Most of these tests have been sent to outbreak hotspots with front-line health care workers and first responders being prioritized. They are currently manufacturing 50,000 tests per day and plan to increase ID NOW manufacturing capacity to 2 million tests a month by June. This is part of a massive effort under way in the U.S. to test increasing numbers of Americans.

Outlook

An unprecedented response by Americans to support shelter in place and social distancing combined with extraordinary policy support from the Federal government and the Federal Reserve has dramatically reduced the downside risk to the U.S. economy from the COVID-19 pandemic. Signs the curve of new infections is beginning to flatten is encouraging as it pertains to the potential duration of the current shutdown. Together these factors have been able to lift the S&P 500 out of bear market territory, rising 30% from the lows (Note: current values of your securities portfolio are likely well above quarter-end values). The likelihood of new lows below those of March 23 are possible, but unlikely considering the current unbounded support of policymakers.

The markets will likely remain unusually volatile in the immediate weeks ahead as earnings reports and economic data releases confirm the virus’ impact on the economy. But of paramount importance will be the data coming out pertaining to the progress in containing the virus and the ability of the economy to reopen in some form. With billions of dollars flowing into COVID-19 vaccine and therapy research and testing equipment, the news flow that is driving investor sentiment should begin to become increasingly favorable.

Our advice to clients is to focus on long-term value and be confident that the American economy will survive the COVID-19 health crisis. Mean reversion should prevail and reward those who stayed the course or bought more stocks when price declines looked the most threatening.

In closing, we wish each of you the best during these difficult times. We hope for a speedy end to the global pandemic and a return to a normal healthy economy. Continue to pray for our nation, especially our doctors and nurses, first responders, service providers, and our most vulnerable citizens. We will get through this and become stronger due to the lessons we have learned.