MEDALLION WEALTH MANAGEMENT

Where Trust is Earned

4/2/2020

First, we hope all of you and your families have continued to stay safe as we all try to protect ourselves during this unique time. At Medallion, we continue to monitor developments regarding coronavirus, markets, portfolios, and the needs of our clients. We would like to be a continuing resource to ease your concerns.

The country, the economy, and the markets have had substantial challenges through the years; however, as we have experienced before, we expect to pull through with tremendous success. While we are in the middle of it, things can feel scary, and having concerns and questions is normal. The coronavirus has had what feels like a significantly different effect and impact on individuals versus some of the other market disruptions over the last 50 years. The "Hong Kong Flu" that hit the U.S. from September 1968 through March 1969 killed around 34,000 people in the U.S. according to the Centers for Disease Control, but due to the lack of social media and the 24 hour news cycle, it had little impact on small business activity. The difference with this situation is that almost everyone is impacted on a daily basis. As a result we may feel much more on the front lines of this crisis as we witness the global economy and normal life come to a near standstill.

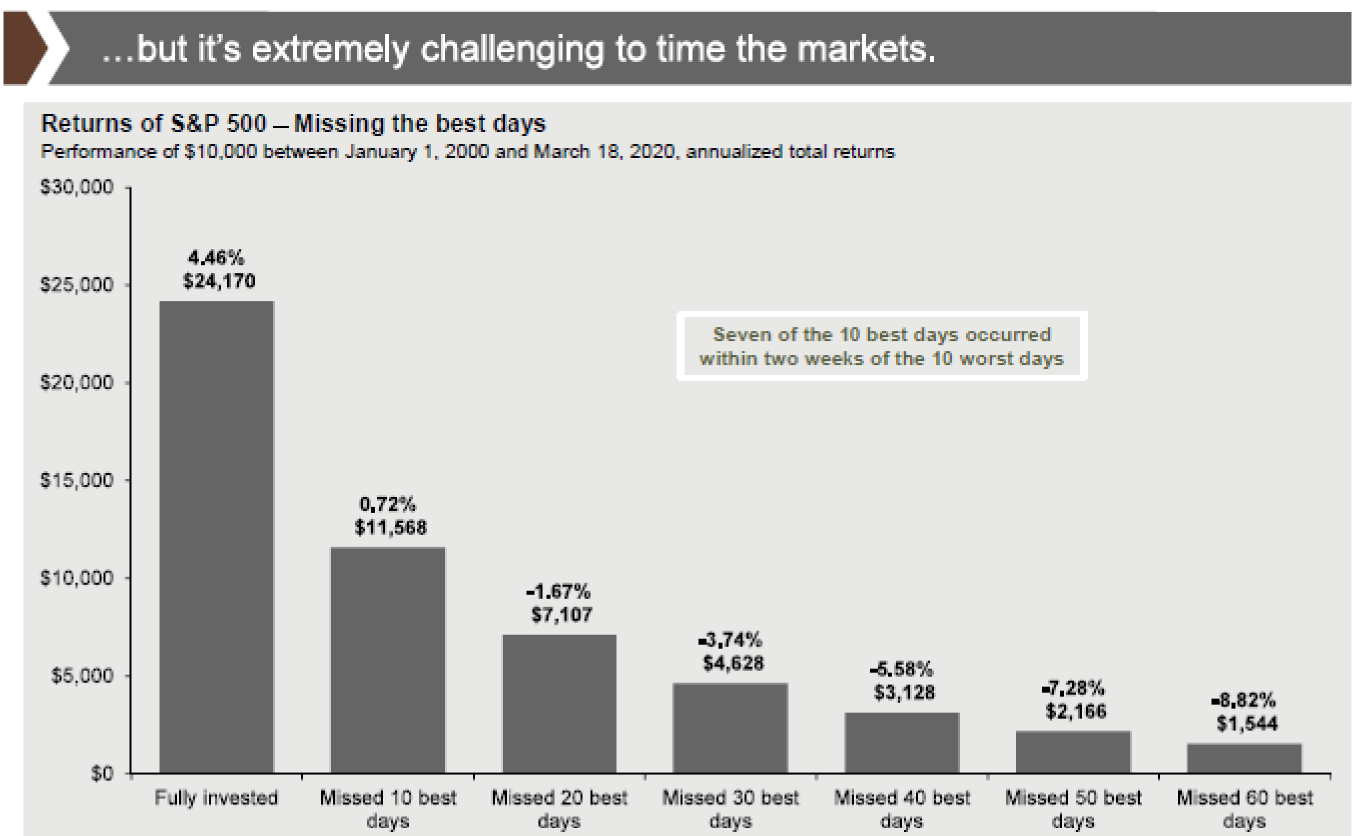
A lesson learned from the 2008-2009 crisis was that regulations enacted beginning in the 1980's, such as the Basel Accords and Sarbanes-Oxley reduced the effectiveness of transmission of stimulus into the economy. With the coronavirus stimulus, the Fed is essentially bypassing the banking system by directly buying corporate bonds and enabling Treasury lending through the Small Business Administration. This should keep the banks from building excess reserves and allow the funds to reach the economy faster and more completely.

So where do things stand now as we move into April? Well, as expected the recent economic data has been very weak and will likely continue to get weaker in the near-term. Also coronavirus data continues to come fast and the outlook is predicted to worsen over the coming weeks. The United States is now greatly ramping up the volume of tests given, which is good for long-term success against the virus but will continue to fuel headlines regarding the number of cases and unfortunately the number of deaths. While the information is highly important and in many cases devastatingly sad we must try our best to retain perspective and understand that the projections we are provided are often worst-case scenarios.

There is no question the economy and earnings will be negatively impacted in the near-term, but the stock market low on March 23rd had priced in a large portion of the impending recession. That doesn't mean it can't go lower, but the risk/reward is getting much more favorable for owning stocks. If there is an upside to this shutdown hitting the economy it is that all of the stimulus may provide the potential for a much quicker rebound than we normally see coming out of a recession. We just need to get to a critical juncture from a medical standpoint: where the confidence level is high enough that we have a cure (or better containment on the high risk areas) and what parts of the country can begin to go back to work. The other positives are that the strength of this economy was very good coming into this with an incredible number of jobs being created as recently as February and that the consumer was in as good a shape as they had been in a very long time. This bodes well for a good snap back to economic activity.

After some political back and forth, Congress passed the $2+ trillion care package to aid small businesses, individuals and corporations trying to bridge this shutdown to the startup of the economy on the other side. This financial package will hopefully allow many business to pay rent, salaries, and other expenses; as well as directly aid individuals by getting checks based on their past income, and number and age of their children. There are also unemployment options for individuals and a provision in the bill for some of the hardest hit industries such as airlines, hospitality, and entertainment. In addition to these measures, the Federal Reserve has pumped trillions of dollars into the financial system to help the markets function smoothly and efficiently so business and markets can operate in a way that will prevent things from getting further complicated. In a coordinated move with other central banks, they also lowered the federal funds rate to zero. In contrast to the 2008-2009 financial crisis the Federal Reserve has acted much faster and in a bigger way to stop or slow the slide.

The stock market often times, and hopefully in this case, will follow its typical pattern in bear markets, or major corrections in that it will turn positive before the headlines and the data are showing real increases and improvements in activity. Just as the selloff was accelerated by de-leveraging and computerized trading, this rebound will likely be sharp and fast. This is where sticking to your long-term asset allocation is so important because no one will know exactly when the precise turning point will be and what triggers the rally off the bottom. As illustrated below you can see that you do not want to be out of the market and miss that move. What is interesting is that most of the biggest up days in the market are clustered around some of the worst days in the market. There is a drastic difference in portfolio returns by missing just a handful of the best days.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Data are as of March 18, 2020.

J.P.Morgan
Asset Management

In summary we are definitely not out of the woods yet, but it looks like progress is being made on the medical front and with that comes the confidence for market participants to better quantify the economic status to form a market bottom. As mentioned above, we feel good about the risk/reward prospects for owning stocks with a long-term time horizon. As always, we continue to manage portfolios using our best judgement for the objectives we set with each of our clients. We have and will continue to look for the opportunities presented by current and future market conditions.

Please call your advisor with any questions or concerns as we are here to help navigate through these challenging times.

Portfolio Managers,

Jim Schrott and Scott Elliott

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