FLASH COMMENTARY
April 9, 2020

Hello!

First of all, we want you to know that we're thinking of you and your family during this unprecedented time we're all experiencing right now. We know many of you are feeling the impact as our country navigates the COVID-19 crisis. The most important thing to remember is that you're not alone, and we're here to help guide you through this.

We've spoken with many of our clients over the last few weeks to share our perspectives on recent market conditions. Technology is helping us communicate faster through social media, newsletters, and downloadable resources, but despite these efforts, each day still brings new information that deserves your attention.

Here are some new developments we're seeing that we wanted to share.

We've been saying that there are "three legs to the stool" for this recovery:

1. Monetary response (the Fed)
2. Fiscal response (D.C. fiscal bills)
3. Virus pathology/headline risk

We're currently halfway there, as it will take more time for the fiscal stimulus to fully filter into the economy. As we've mentioned previously, we believe history will show that it was a mistake to have shut down the U.S. economy without a fiscal stimulus plan implemented alongside the stay-at-home orders. Of course, complaining and finger-pointing isn't going to change things now, so we'll save that for the Friday evening Zoom happy hour!

With that being said, the magnitude of the fiscal stimulus—combined with the extraordinary speed and actions of the Federal Reserve monetary stimulus—are unprecedented and eye-popping (despite our frustration that the fiscal stimulus didn't come sooner). The original $4 trillion from the Federal Reserve, combined with the $2 trillion from the stimulus plan, were sufficient enough to get us through three months of a shutdown (March, April and May). Shoring up its efforts even more, the Fed announced today plans to pour an additional $2.3 trillion into economic support programs.

This Main Street Lending Program would translate to new loans earmarked for businesses with less than $2.5 billion in 2019 revenues and 10,000 or fewer employees. The Fed also wants to provide extra support for the Payroll Protection Program, along with other initiatives designed to pump more money into U.S. small businesses.

What's more, the Fed is also slated to purchase up to $500 billion of municipal bonds. The aim here is to make it easier for state and local governments to access additional funding. This last move is aimed at breathing new life into the municipal bond market and reduce borrowing rates for state and local governments—which will hopefully curb layoffs, reports the Associated Press. Stock futures jumped almost immediately after the Fed's announcement.

Something to remember during all of this is one of the most important investing principals: "Don't fight the Fed." When the Federal Reserve is injecting liquidity into the system, asset prices rise. Yes, there are fundamental issues with the shelter-in-place mandate, but the Fed has demonstrated an overwhelming commitment to provide a backstop until the economy can find a new normal.

So where does that leave the economy? The most bearish estimate among economists and banks for 2020 has been a 24% U.S. economic decline. While that is not our view, the $8.5 trillion of combined stimulus is 40% of the 2019 U.S. GDP of $21.44 trillion. The recent increase in the economy's money supply, thanks to the stimulus, is the biggest three-month change in 40 years.

The $2 trillion fiscal stimulus will be very slow to make its way through the economy, and both the fiscal and monetary stimulus are blunt tools. Meanwhile, the federal government is quickly seeing just how in demand these new small business relief programs are—and that the original funding simply isn't enough. A Senate vote is scheduled for today for at least $500 billion more in spending, which is separate from initiatives to expand the CARES Act.

While we believe the macroeconomy will recover faster than most people expect, there are many individual and personal circumstances that will be significantly impacted through all this. Unfortunately, many Main Street businesses will carry the biggest burden overall, with the S&P likely recovering quickly—thus adding to the frustration and grief that many Americans are experiencing.

The stock market rally we've seen this week is in response to:

- The COVID-19 curve flattening in both the U.S. and in Western Europe
- New model tracking that suggests there will be a lower mortality rate than what last week's estimates were projecting. The model also predicts that fewer people will need hospital beds.
- The Fed's unveiling of $2.3 trillion in economic support programs

Meanwhile, the Dow was up over 13% for the week; 12.8% for the S&P 500. We also saw a collapse in the VIX, which measures market volatility, so the violent swings of the market have been dramatically reduced. This may be a shocker given the media coverage. Further, new coronavirus hospitalizations in New York state have declined to 200 per day. Governor Cuomo also said, "We don't need any additional ventilators right now."

The most common question we've received over the last few weeks is, "Are we heading toward a depression?" Our response is that this is the fear that's often present when nearing a bottom. We believe the data will show that we entered into a recession in March, but not a depression. The Great Depression was caused by major policy errors, which included the increasing of interest rates, increased taxes and regulation, and a trade war. We've since seen one of the fastest policy responses in history, along with reduced regulation and removal of tariffs.

We're not out of this yet, but the market is finding guidance, which has been absent over the last few weeks. The stock performance after recent surges like we've just experienced is typically random over the following three months. However, the longer-term 6- to 12-month returns tend to be abnormally strong. Six months may seem long considering what we have just experienced, but it you set the worry aside, you'll see that it's not a long investment horizon. We would encourage you to focus on a longer view of 12 to 18 months out, and partner with your financial advisor to identify the appropriate opportunities as they relate to your unique circumstances and financial plan.

We've created a COVID-19 Resources Page, which includes our 2020 Market Outlook from two weeks ago, and a recently released webinar called, "Financial Strategies for Navigating COVID-19." There you will find our investment outlook, details of the stimulus plan for individuals and businesses, and much more. We will be adding to it as more unfolds.

Please share any of our resources and contact information with friends or loved ones if you've found them valuable. We're looking to help investors who are seeking assistance with challenges they may face.

Above all, what matters most is keeping your family safe while the country gets back on its feet. This time in history is a season that will eventually pass. Until then, we're here to answer any and all of your questions so that you're in the strongest position to weather the storm.

Stay safe, wash your hands, and contact us for specifics on how this all relates to you.

Warm regards,
Your Opal Wealth Advisors Team

OPAL
WEALTH ADVISORS

Opal Wealth Advisors / 2 Jericho Plaza / Suite 208 / Jericho, NY 11753 / t. 516.388.7980 / f. 516.388.7968 / **opalwealthadvisors.com**