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MARKET COMMENTARY

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Dow Jones Industrial Avg. 21,917.16		Standard and Poor's 500 2584.59	
2020 (YTD) -23.2%	1st Qtr. -23.2%	2020 (YTD) -20.0%	1st Qtr. -20.0%

"The only thing to fear is fear itself." Franklin D. Roosevelt

A Rude Awakening - Chicken Little was finally right. For investors, the sky did fall in the first quarter of 2020. As the coronavirus threat became clearer, investors rushed for the exits and the result was not pretty. According to an April 6 Wall Street Journal column, Quarterly Monitor, "the average U.S. stock fund fell 24.6%, mostly because of a 17.1% rout in March. Although the rapid spread of the virus began to gradually impact the psyche of the consumer, investors acted without hesitation by selling with abandon. Within 30 days, the stock market lost one-third of its value and registered the largest and quickest drop from an all-time high. It saw the Dow Jones Industrials (i.e., DJIA) plunge from 29,568 to 18,213 as buyers vanished, so sellers prevailed. Results for the first quarter were painful to view as the DJIA registered a decline of 23.3 percent and the Standard and Poor's fell 20.0 percent. The devastation was widespread and no market sectors were able to achieve positive results. However, remember it is always darkest before the dawn, and the stock market reflected this sentiment with a strong twelve percent rebound in April, the best monthly performance in 33 years. Nevertheless, the market's outlook for the balance of the year is guarded at best and this quick rebound appears to be based on the expectation of a quick, V-shaped recovery.

A Hope and a Prayer – Recent economic reports suggest a V-shaped recovery will depend on a healthy dose of wishful thinking. Businesses throughout the country are in a state of suspended animation due to the abrupt shut-down orders by the President, which have been expanded by many state governors including our Governor Baker. "Non-essential" business have been forced to close and a large percentage of the employees of those business have been told to shelter-in-place, as social distancing has become prescribed as the optimal method for coping with the virus absent a vaccine. The more fortunate employees continue to perform their duties from home, while the rest are eligible to file for unemployment. To further add to the confusion, particularly on the home front, schools have all been closed everywhere and at all levels. If there is a silver lining, it is the dramatic increase in the use of social media, especially programs such as ZOOM by businesses and individuals.

Economic Obliteration – As the virus swept the nation, most of the media attention has properly focused on the human toll and the extraordinary challenges confronting the nation's healthcare system. Every day's headlines listed the number of new Covid19 cases and the number of additional deaths. Not surprisingly, this daily recitation of the devastation caused by the virus has helped impress upon the public the personal risk of this pandemic. Much of the media attention has been to emphasize measures society must take to slow the spread of the virus.

However, actions have consequences. The business statistics for the month of April have been released, Americans are being made acutely aware a severe and crippling economic impact caused by the severe restrictions that have been imposed by government at all levels. During April 20 million jobs were lost and the jobless rate went from less than four percent to fourteen percent and the May numbers will continue to climb. Unfortunately, Massachusetts is one of the more restrictive states. By stressing only the heath aspects of the pandemic and giving little thought to the consequences of their harsh restrictions on the economy, they have succeeded and likely initiated the worst recession since the Great Depression of the 1930s. To lessen the devastation resulting from the economic shut-down, the Congress rushed through a Three Trillion Dollar cornucopia rescue package originally promoted as meant to benefit workers and small businesses. In typical Washington, D.C. fashion, this bill now provides an amazing windfall of riches to many government agencies and lesser private causes. A cynic's view is this allowed Congress with the assistance of the lobbying industry in D.C. to fund their priorities with virtually no scrutiny, which they never could have managed in ordinary times. Shameful!

Markets Reaction Now – The stock market has shown a surprising degree of resiliency since the blood bath in March. However, the recovery has been very uneven, as the NASDAQ, which is dominated by technology stocks, is now slightly positive for the year, yet the Dow Jones Industrials and the S&P 500 remain in negative territory. The outlook for the economy and for stocks remains murky. Unemployment is still increasing. Many businesses, especially small ones, remain closed. Consumers are still on a short leash because of lost jobs and wages as well limited access to physical retail locations. From an investor's point-of-view, corporate revenues and profits will be significantly lower. The quick recovery in stock prices seems to suggest the market is expecting a V-shaped recovery yet given the magnitude of the disruptions that seem too optimistic. It is difficult to imagine a robust recovery occurring until a vaccine is approved or infections decline to much lower levels. With the partial recovery in stock prices combined with a soft economy, conservative and retired investors would be wise to maintain a cautious, approach focusing on higher quality companies paying secure dividends or mutual funds/ETFs that have similar objectives.

The FED's Role - The Federal Reserve (i.e., the FED) was also needed to fill the economic hole resulting from the pandemic. Their role, though less well publicized, was to institute actions to maintain liquidity in the banking system and support fixed income markets. Many aspects of the fixed income markets were subjected to unprecedented stresses. Areas requiring specific intervention were money market funds, municipal bonds, and the lower-grade debt market. Funds investing in these instruments were in jeopardy of being unable to honor redemption requests because there were no buyers for the bonds they needed to sell Some protest the FED went overboard to once again protect the banking system, yet without its efforts the rout in the markets would have been even worse. An equally daunting challenge awaits the FED as the government attempts to accomplish the unenviable task of selling enough debt securities to finance the huge $3-4 trillion dollar Covid19 rescue package. Given the enormity of the task, it is difficult to imagine this can be accomplished without seeing interest rates move steadily higher and all other issues being threatened by the "crowding out" effect by the U.S. Treasury.

Changing Landscape – Financial markets are always in motion, but financial decisions are also impacted by other considerations, which include federal tax legislation. Every year we offer a tax facts brochure, to help clients better understand of actions we have taken on their behalf, such as tax harvesting. Within the past year, two changes have been enacted regarding individual retirement accounts (IRAs). The first relates to when the initial minimum required distribution must be made. The Secure Act changed the age from 70 and 1/2 to age 72. The second, a provision of the Cares Act, is anyone required to take an annual distribution will not have to take it this year, 2020. However, if you do need the money you can still withdraw it, yet income taxes will result.

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