March 9, 2020
Statement on Markets

Global stock markets fell precipitously on March 9th, even triggering a 15-minute trading halt in U.S. equity markets. The selloff was both a continuing reaction to the spread of coronavirus and a response to actions taken by Saudi Arabia with respect to oil production and prices.

We will not go into all the nuances of coronavirus. But it has spread and is spreading well beyond the initial source of the outbreak in China. While we have no doubt that it will continue to spread and that it will be responsible for both much sickness and death, we do believe testing, vaccination, and even cures will eventually become available. Even if such progress will not be available imminently, we do believe eventually this disease will become a manageable problem.

From an economic standpoint, beyond the cost to control the disease, supply chains have been disrupted. Similarly, there are already signs that consumer demand is weakening. This has been the primary driver behind falling stock and commodity prices, as well as falling interest rates.

Into this falling demand and commodity price environment a dispute has arisen in the oil markets, primarily between Russia and Saudi Arabia. On Friday, a four-year collaboration between OPEC and 10 non-OPEC nations led by Russia effectively came to an end when Saudi Arabia failed to convince Russia to join its plan to cut back production. Unable to reduce supply to help prop up prices, Saudi Arabia initiated an oil price war by decreasing oil prices and expanding production. As we write this oil price declines exceed 20% on the day.

Markets have long associated falling oil prices with a weak economy. This is true whether prices fall because demand is weak or whether prices fall because there are new sources of supply. This added perception of weakness triggered today's accelerated market selloff.

Any perceptions or actual weakness has occurred after a long bull market and a particularly strong 2019. When investors have made money during good times, they are often quick to head for the hills at the slightest sign of bad news. Stocks in general had considerable growth expectations built into their valuations at the beginning of the year.

The real risk to the markets and the economy comes from the risk that credit markets might react and not provide liquidity when it's needed the most. The Federal Reserve (Fed) recognized this risk and cut interest rates last week in an emergency session. While we think other Fed actions may be required, we are encouraged by the seriousness in which they view the situation.

Investors need to take a long-term view of their own investment needs. Money needed in the short run should not be invested in stock markets. However, for long run needs, timing the markets is dangerous business. Those who suffered the most in the past two downturns were those who cashed in their investments on the way down and failed to get back in. We urge that you consult with your individual advisor as to the best course of action, always keeping your sights on your long-term objectives.

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