



Capital Market Outlook

3/20/2020

QUICK VIEW

- In record time, the coronavirus outbreak has become a real threat to the short-and-medium term success of the global economy
- Target federal funds rate level has been reduced to 0.00%-0.25% in hopes of encouraging consumer borrowing and spending
- We are using this volatile environment to harvest tax losses, and best prepare for recovery across our core portfolio models
- Financial advisors can help you make prudent decisions for your financial future. Contact Sierra Ridge Wealth Management today for a consultation

CORONAVIRUS THREAT

This month has been a wild one.

As recently as February 19th, all major U.S. indices capped record highs of their historic bull run, and market fundamentals supported continued growth into the foreseeable future. Just one month later, we are in the midst of the quickest market correction in modern history, triggered by the propagation of global infections with the COVID-19 virus, and many are left looking for answers. While much is still unknown about the path to recovery, we can identify several risk factors we are monitoring as we navigate this volatile market environment.

First, regarding the economy, global industry has faced a series of sudden stops spurred by government safety mandates and labor furloughs. Shocks to supply and demand have led to rapidly decreasing output, and dismal forecasts of future company performance. Consequently, stock prices have plummeted, business have become strapped for cash to cover their fixed costs and debt obligations, and investors have run to the hills in abandonment of any market risks.

To date, the U.S. government and Federal Reserve have employed some of their policy tools to dampen the effect of this downturn. Federal interest rates have temporarily been cut to 0%, and significant liquidity has been promised to the markets through government purchasing of treasury, municipal and mortgage securities in the open market, commonly known as Quantitative Easing. In the coming days, we will likely see congress approve a stimulus package to buffer the financial impact of this shock to households and small business through enhanced lending accessibility, tax relief, emergency liquidity, and direct cash payments to households.

Looking to the future, and given the unprecedented nature of the situation, anyone who forecasts future economic performance as anything other than an estimate should be taken with a grain of salt. In our view, the US economy will likely continue to contract at a high rate in both March and April, stabilizing in the summer months, and begin to recover during Q3 or Q4. Three key factors we are monitoring, among others, are:

- Government-imposed market restrictions
- Effectiveness of U.S. monetary and fiscal policy activities
- Total change and stickiness of U.S. unemployment
- Insolvency and credit risks among companies providing key economic production

Ultimately, we see a realistic timeline for declining growth of COVID-19 cases as the true catalyst for robust economic recovery.

Now, some positive sentiments. We at Sierra Ridge Wealth Management believe that in times of uncertainty, investors also find themselves with excellent opportunity. Here are some takeaways that we encourage you to consider during this volatile time:

- Market corrections have happened before, and they will continue to happen into the future
- Every bear market period in history has been followed by a recovery
- Extreme market volatility provides ample opportunity for long-term investors to capitalize on significantly discounted equity investments
- Nobody can time the markets, so the mitigation of “panic selling” is a proven and effective investment strategy
- Momentum drives short term volatility, but strong economics always prevail in the long run.
- Each new headline regarding COVID-19 has brought incremental decline to the global economy. One headline – a solution to the danger currently presented by the virus - will reassure investors of when full economic recovery can be achieved. Ensure that your portfolio is setup to take advantage of this rapid turnaround.

Knowing that our advisors are equipped to guide you through this unprecedented volatility can bring reassurance to managing your long-term financial goals. Contact us today to learn how we can help.

MARKET INDEX PERFORMANCE

As of 03/20/2020

INDEX	Total Return %		
	WTD	MTD	YTD
Dow Jones Industrial Average	-17.3	-24.54	-33.6
S&P 500 Index	-14.9	-21.99	-29.3
NASDAQ	-12.6	-19.7	-24.3
MSCI EAFE	-11.1	-24.41	-32.9
MSCI Emerging Markets	-13.2	-22.61	-31.5

Source: <http://finance.yahoo.com>

INDEX DEFINITIONS

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in dollars.

S&P 500 Index is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

The Dow Jones Industrial Average (DJIA) is a price-weighted index of 30 actively traded blue-chip stocks.

GLOSSARY

Benchmark Rates are globally-accepted reference rates used to determine the values of various classes of financial instruments traded worldwide. A famous example is LIBOR (the London InterBank Offered Rate) which is the agreed cost at which major global banks can borrow funds from one another.

Monetary Policy consists of management of money supply and interest rates, aimed at achieving macroeconomic objectives such as controlling inflation, consumption, growth, and liquidity.

Fiscal Policy is the means by which a government adjusts its spending levels and tax rates to regulate a nation's economy.

Money Market is the market for securities with short-term maturities. Times to maturity range from overnight to a maximum of one year. Anything with a longer time to maturity is considered part of the capital markets.



Tim Watkins, MBA
Portfolio Management Associate
Sierra Ridge Wealth Management
<https://sierraridgewealth.com/tim-watkins/>