April 2020

Q1 2020 Commentary: It doesn't matter, until it matters…

There is a phrase that goes around regarding financial markets along the lines of "it doesn't matter until it does," and at the start of 2020 little seemed to concern investors. In the January 6th issue of Barron's magazine, Nobel prize winning economist, Richard Thaler noted "the amount of yawning by the markets is the thing I find most surprising." Indeed, at the start of the year nothing seemed to derail the stock market. That is, until something did… and it really did. The stock market peaked on February 18th and by March 23rd the S&P 500 had fallen off a cliff down almost 34%. Since that low point, the stock market has rebounded and is now down 12% for the year. In response to the pandemic induced economic shutdown and resulting federal reserve actions, interest rates also plummeted. The 10-year US treasury yield fell from 1.92% on December 31st to just 0.63% on March 31.

Obviously, these are unprecedented times and we cannot know with any precision how the next months will play out for the US, the economy, and financial markets. The impact of sheltering in place makes any prediction of what is in store for the US no more than a guess. However, there are some things that we do know. We know that the government and the federal reserve are unleashing financial shock and awe. The greatest rescue operation by many orders of magnitude are currently under way. The fed has launched unprecedented programs to ensure capital markets function smoothly, lending rates remain near zero and banks continue to operate. Congress has passed legislation pumping trillions of dollars into the economy. Some my question the cost of the rescue effort, but with such low interest rates, ballooning debt is not nearly the concern it would be otherwise. In the short-term such concerns are irrelevant to current investment decisions. Clearly, legislators are going to do whatever it takes to keep the economy from a prolonged slump. These actions alone give us assurance that riding through the storm is the best course of action. If we encounter further market weakness, we will take the opportunity to further optimize portfolios for the coming recovery.

Foremost in our minds at any time and particularly during times of financial crisis is to rely on the foundations of our investment philosophy and proven process. First, we are long term investors and we know our investment process will work over time. We have little interest in making decisions based on what will happen in the next few months. When the S&P 500 fell more than 30%, there were clearly stocks to buy at prices we found attractive no matter how long the Covid-19 economic disruption might last. These are companies that will not just survive but thrive when the economy turns higher. Examples are companies with long track records of high growth often including substantial online, cloud-based or streaming businesses. In March, these high-quality businesses were available at once in a decade prices that were too good to pass up.

Warren Buffett, the greatest investor of our lifetimes, often reminds us whenever the next economic crisis rolls around, how unwise it is to bet against the United States. The turnaround from where we are now is not in question. It is inevitable and the only question is how long it will take. The government is seeing to it that we will muddle through in the meantime. Already millions of people are stepping up to ensure we will get through this new threat. Millions more are adapting and learning to thrive in this new environment. Now is not the time to bet against the future.