



BULL TO BEAR

The Bull Market officially ended. Growth was already slowing, and asset prices had lofty valuations. We have been thinking we had already been in a Bear Market for two years, starting in January of 2018 and accelerating during the holidays that same year with what will be remembered on Wall Street as the "Christmas Massacre." Bear Market rallies bring a series of fake-outs, and they lull investors into thinking it's safe to participate. Then boom! It dropped fast again.

The negative economic impact of the Coronavirus spread changed everything. The longest expansion in American history closed abruptly with the fastest fall to Bear Market ever. Circuit breakers were triggered four times in March. That happens when the S&P falls 7% in a session, resulting in a 15-minute timeout. They had not previously been triggered since 1997, not even during the Financial Crisis in 2008-09.

Almost every asset class felt the pain, including Bonds and Gold, leaving few places for money to hide. Corporate Bonds and Municipal Bonds, traditional safe havens, sold off initially as only Treasuries and Dollars received inflows amidst the panic. The Fed's quick and decisive action provided relief and the Bond Market started acting much better. Gold has rallied since.

The Federal Reserve pulled out its Financial Crisis playbook. America's central bank launched a QE to infinity campaign and has been an aggressive buyer of Treasuries and Mortgage Backed securities as well as opening the discount window for Muni Bonds and providing a backstop to Money Market Funds. The goal is to help keep the Financial plumbing flowing.

Whatever it takes is the attitude. The Fed is pulling every lever it can, with creative approach. The Fed can't lend directly to companies. But with approval from Treasury, it is creating special facilities that companies can access. The Fed is doing similar things for state and local municipalities too.

Congress moved quickly too, in Congressional speed terms, that is. Congress isn't known for doing much of anything fast. They passed a \$2 Trillion relief bill to help support Small Business and American workers. It's a start. More will come. The US has declared war on the Coronavirus. It's an invisible enemy, the likes that we've never experienced. It will take time and effort. A wartime purse approach is expected to help win it.

In a striking move, the US Government shut the Economy down. It plans to cover the cost of close while our nation endures the challenge of the Coronavirus spread. A massive recession is being priced in. The question is how bad and for how long. However, this will be set against an unprecedented stimulus response, from both the Fed and Congress. There appears to be no limit. Whatever it takes. It's going to take a lot. Jobs have been cut. Incomes are going away. Revenues have evaporated. Rents won't get paid. Mortgage payments will be delayed. Malls and restaurants are empty. The US Economy has experienced a shock like never before.

Another way to look at it: the US Economy was experiencing massive cardiac arrest in response to the coronavirus spread. The US Government induced an economic coma and is keeping the Economy on life support. That's what the Congressional relief act addresses. Once we get through this crisis period, there will be a time for economic rehabilitation. The longer the crisis, clearly, the more support required. More Congressional stimulus packages will come. It will be the physical therapy tools and drills to get the Economy back to health.

The economic shock sent spending to a near halt. Q2 GDP could contract by as much as 34% by some estimates. That seems extreme, but the numbers are going to be bad. The question remains how bad and for how long. 10 Million Americans lost jobs in just two weeks. It's just the beginning. Market behavior near term should be expected to be virus data-driven. It's the virus that forced economic lockdown. It's the virus that will dictate the time. The Economy will stay in shock status until the virus curve

declines. The tough part about navigating the Market, is it will start moving higher before the news improves.

Big relief is coming. We certainly don't have all the details yet, nor how it will be deployed. They keep trickling out. But this is how we understand the \$2 Trillion Fiscal relief package and the \$4 Trillion aid from the Fed. These are really big numbers. \$1.6 Trillion will go to individual cash payments to:

- ~ The American people who qualify.
- ~ Industry-specific bailouts.
- ~ Small business loans.
- ~ Health Care-related programs to directly help fight the effects of the virus.

The Paycheck Protection Program (PPP) is in it. The totality of the deficit spending and Fed balance sheet expansion could push 40% of GDP, and beyond before all is said and done. Importantly, this is credit easing. It is not monetary policy easing. In other words, this is Fiscal policy, orchestrated by Congress, where the Fed can pick winners and losers. What might that look like, you wonder? Well, it's more likely that the Fed would purchase higher quality Corporate Bonds over riskier High Yield, otherwise known as Junk Bonds. The Fed balance sheet will increase by around \$6 Trillion. It will not stop there.

It is important to recognize that this policy response is mostly about buying time and dealing with liquidity issues. Rebuilding business and consumer confidence will not be easy. How long the economic lockdown lasts is going to dictate Market conditions. A recession is certain. Earnings contraction is too. Corporate America has taken away guidance for 2020. It's unknowable. That has many investors already looking past the present and out to 2021. The Market seems to be pricing in a mid-May return to some level of normalcy. Some steps will be taken to get the Economy restarted. All this presupposes some level of economic equilibrium by mid-Summer. That could be overly optimistic. Nobody knows right now. The data will dictate.

Market bottoms are often a process. First, an initial low is set. Hopefully, the March low was it and healthy back and filling proves it. But the how bad and the how long are at issue. We have been defensive and will continue to be so until there is more clarity that a recovery is in place. It's going to take time and it's going to require patience. We'd like to think that six months from now the Market and US Economy are in recovery. We don't have a timeline. We're with Dr. Fauci. The virus is going to make the timeline.

LOOKING BEYOND THE NOW

What America Might Look Like in a New Normal

It all started in America back in January. The first case of novel Coronavirus was confirmed in Washington State. It was an unidentified male in his 30s who had recently returned from China. The first case in California was in February. It snowballed from there and reached both coasts.

People have put their lives on hold, but at some point, the shockwaves will stop being absorbed. People not doing things ultimately means people are not getting paid, and uncertainty means no one is starting anything new. Houses aren't getting sold. New businesses aren't getting started. At least not yet...

Things will recover. They will. Of course, not for everyone. But once this virus passes, life will get back to normal. However, it will almost certainly be a new kind of normal. Crisis brings opportunity. We will see more sophisticated and flexible uses of technology. Perhaps there will be less polarization of society, an emphasis on family and friends, and a revived appreciation for the outdoors. Social decency might become common. There just may be new respect for life's simple pleasures. Essential services and needs have come into focus. It probably stays for a while.

Comparisons have been made to the **Financial Crisis, September 11th and the Dotcom bubble busting. If you combine all 3 of those, this one is still more challenging.** September 11th changed everything. Americans woke to the realization that we were no longer immune to foreign terror. The Financial Crisis proved we were vulnerable to an economic disaster, much like the Great Depression.

Today we face a health care crisis that has caused a social and financial crisis. It's going to take time and a whole lot of effort for recovery. Social distancing is a temporary prescription. How quickly the disruption subsides will be different for different people. It won't soon be forgotten. Will shaking hands permanently leave our society? Public hugs won't return anytime soon. Hopefully, regular hand washing will be long-lasting. That should not have been new to anyone.

The US Government shut the Economy down. It plans to cover the cost of close while our nation endures the challenges of the Coronavirus spread. The impact of the shutdown varies not only by geography, but industry by industry. Restaurants, hotels, theme parks, retail stores and movie theaters will have to restart from ground zero. Even when they are allowed to open, it will take weeks or more likely months for volumes to rebuild. Some industries, like cruise ships, may not recover fully for several years. In fact, the cruise industry might never return to the traffic experienced prior to the pandemic.

Some stores, despite the Congressional aid package passed, will remain shut. Other businesses, including health care, financial services, essential services (especially grocers and pharmacies), and streaming companies will hardly skip a beat. There are so many that fall in between.

The millions furloughed or newly unemployed will be backed up on bill payments until Federal money flows. Will it be enough? Some will fall through the cracks and get nothing. Will the safety nets catch these people or not? These are all unanswered questions that will take weeks to resolve. All the uncertainties will keep the Market volatility high.

WHAT MIGHT THE FUTURE FOR AMERICA LOOK LIKE?

Here is our attempt to frame the situation and hypothesize the path forward.

Perhaps the Universe is indeed sending a message. Who is listening? Family and friends seem to be renewing bonds. There's a new sense of self and vulnerability. Material possessions might have less meaning now. The world is changing. Increased fires and hurricanes are causing more destruction. Our way of life is changing.

Globalization will continue to slow. The trend was already in place, starting with Brexit. It increased under Trump. The rate will speed up. Physical and digital borders will increase. Supply chains will be disrupted, moving from global to local. Medicine and other essentials will be made and stored at home. A lot more things will be made at home. Costs will rise.

The case will be made for more government oversight. There will likely be more engagement between Washington and Corporate America. It's already started with bailouts. Companies that receive government relief won't be buying back stock or paying big bonuses. They shouldn't. However, hard-work and innovation need to still be rewarded. Doing good, the right way should still be honored and embraced. Shareholders and stakeholders are both prime audiences. More selfless, less selfish.

We need a plan for a plan. A strong government is essential for a Superpower. But it has to be logical, practical and efficient. President Clinton declared in 1996 that the age of big government was over. That ushered in the next stage of prosperity and innovation driven by the advancement of the World Wide Web. Reagan detested big government, considering it bloated and inefficient. He once said, the nine most dangerous words in the English language are: "I'm with the government and I'm here to help..." But the Governor of New York, who is rising in popularity on a daily basis, said something interesting. Andrew Cuomo said:

"You can have an economic start-up strategy consistent with the public health strategy. It's smart, it's complicated, it's sophisticated, but that's what government is supposed to do". Now that would be something."

Pressures have been building. America's divide has been political, economic, social and racial. It's been building for years. The divide was beyond wide when this virus set in.

It took some major events for the seriousness of the virus to wake up Main Street America. Tom Hanks announced he and his wife Rita Wilson got it. March Madness was canceled, and the NBA season was suspended indefinitely. That really kickstarted the shut-down of institutions early in March. Later, Major League Baseball delayed the start of its season. The Olympic Games in Tokyo have been pushed out a year. That's never before happened due to a virus outbreak. Wimbledon, the iconic Summer tennis tournament outside of London, just canceled for the first time since World War II. This health crisis has no precedent.

America is going through some growing pains. Our nation, 244 years young, has to decide what we want to be when we grow up. We became a Superpower after World War II and have been the leader of the free world ever since. However, endless wars and policing the world has come at a major cost. The desire for America first and focusing on domestic issues has been a bipartisan initiative. Both Trump and Sanders tapped into it in 2016. Americans were fed up with the status quo. The Trump administration took the Republican Party to an uncharted path. Global alliances have frayed, and the US is not playing the role of global leader like it once was. China is seeking to fill the role but has stumbled with its own imperfections.

Global alliances are critical. They require respect and trust. NATO played a significant role in helping the world become safe for democracy. But most nations failed to live up to their end of the bargain and the US carried it along. America can't police the world. America can absolutely lead the world. There is a track-record already. It just needs some updates and tweaking. This is a moment. A recovery will be costly and require great collaboration. But if done right, it could set the course for the next generation of prosperity in America.

THE DIGITAL AGE TAKES OFF

It was already in motion, but the Coronavirus will likely kickstart the necessary digital infrastructure. This is a revolution, much like the Industrial Revolution a century and a half ago. America needs a coordinated plan like the New Deal and Post WWII. FDR and President Eisenhower led aggressive plans to put Americans to work and build out our infrastructure. It worked. But it needs updates and expansions desperately. It also needs modernization for this Digital Age.



SMART CITIES WILL GET SMARTER, FASTER

Enhanced detection devices will be in place. They will track motion, leaks, floods, and disease. Renewable energy and more efficient usage will be in place. Deliveries will be automated. They will be robotic. They might fly like drones. The impossible just seems a little more possible. Artificial Intelligence is making it possible. Human intelligence can make it happen.

DATA AS A STRATEGIC ASSET



Protecting networks and vital grids will be essential. Hackers are more active than ever, sensing the opportunity to exploit during the crisis. We have been used to the threat of computer viruses. We were clearly ill-equipped and ill-prepared for the Coronavirus. Lesson learned.

SURVIVAL SKILLS ARE BEING TESTED

Survival skills are being tested everywhere. Restaurants are empty. Restaurant owners are opening curbside pick-up and trying delivery. Whatever it takes to stay alive. Gyms are empty. Health clubs and fitness instructors have started selling equipment and are providing video training during this period of social distancing. This trend might continue. Some people might not return to crowded gyms, opting for an at-home solution. Pelotons and Beach Body platforms could take share. Jogs and long walks in the fresh air are always good options.

SUPPLY CHAINS WILL MOVE BACK TO NORTH AMERICA



Supply chains will move back to North America, particularly when it comes to medicine and other essential items. There will be small production facilities scattered around the country with artificial intelligence and 3D printing to allow for speed to market with consistency in specifications. If a region of the country is forced off the grid, for say a natural disaster like hurricane or fire, the supply chain won't be disrupted because the rest of the country will pick up the slack. 3D printing and diversified robotic manufacturing will free our dependence from outsourced Chinese factories.

MORE PEOPLE WILL WORK FROM HOME



This has been a thought for years. It's become a reality today. Many are not going back to the office fulltime, if at all. Business travel will be reduced. More virtual meetings. People hustling from meeting to meeting in multiple cities and taking red eyes will almost certainly slow. The 5G rollout means faster networks. Video conferencing and digital workflows offer efficiencies at a much lower cost. Software budgets will increase. Zoom, FaceTime, WebEx, AWS, Azure, YouTube. You name it, employees will use it.

The need for large commercial buildings and office complexes will decline. High rents will be revisited. Migration from the big city to lower-cost suburbs will continue. Commercial real estate is very threatened.

There will be a lot less. There will be less flying for business. There will be less hotel stays during the week. There will be less driving. That will lead to less fuel consumption. That will lead to less car maintenance. There will be less parking lot demand. Less bridge tolls. Less weekly train usage. Less use of mass transit in general. Less traffic for cafes and sandwich shops near the office. Less spending on work clothes. Less purchasing of stuff. There will be less use for storage facilities. Less, less, less. People and institutions tied to this chain will need to adapt.

ONLINE EDUCATION & REMOTE LEARNING



Schools have been out for a month, and it looks like students won't return until Fall. There is talk that the Fall semester will not even be face-to-face, opting for a virtual transition back to school. **Online education and remote learning have made traction in the Digital Age.** Some of it is for tutoring. Continuing adult education has grown substantially on the web. It will make inroads in traditional schools. It will reduce costs and increase efficiencies. It will increase the quality of education and evenly distribute access across the country. More efficient. More cost-effective. More modern. Social studies need to make a return. Understanding the past is critical to prepare for the future.

AIRLINES WILL CONTINUE TO STRUGGLE



There has been a 95% decline in passengers. It's going to take a long time to get back to the previous traffic levels in the friendly skies, if ever. Everything tied to business travel will feel it: Hotels, UBER/Taxis, convention centers, among others. City sales taxes will be impacted. It's going to hurt.

HUMANS ARE SOCIAL ANIMALS



The need for social interaction won't go away. It will probably be guarded at first. Large groups will be avoided for a while longer. **Stadiums, arenas, concert venues and cruise ships will continue to feel it. The return to normal will take some time.** Sports might return first with empty seats. The games will be watched live on television or streaming online. Sunday worship has already begun at home via video. For some, that may last.

The optimal solution is to develop detection methods to contain disease and prevent spread. Stadiums, airports and convention centers will likely be staffed with portable infrared thermometers to check for fevers before entry.

We can imagine going forward, flying will require mobile tracking. The airline would get an alert if you have been in a hotspot or have been close to infected people. The same would apply to Federal buildings and large events. Everyone is used to showing ID to get into a bar or purchase alcoholic beverages. Perhaps the day will come where we will have to submit a digital profile that confirms vaccination or a bill of health. Privacy is still an issue. But global health is too. These were seemingly unthinkable a year ago, but today, not so far-fetched.

Israel is reportedly planning to use the mobile phone data detection it uses to track terrorists to also track those that have been in touch with known virus carriers. Singapore already publishes known virus cases, listing everything but the patient's name. These seem like an unlikely approach in the United States, potentially infringing on privacy, but the debates are happening. The technology is there.

HEALTH CARE IS BACK FRONT & CENTER

Health Care is back front and center as the election campaigns return. The virus most likely will blur the lines between Democrat and Republican differences. Americans want to be safe from disease. The need is undeniable. How to pay for it will always be debatable. Healthcare is local. Preventative medicine is essential. Telemedicine and enhanced relationships with pharmacies are on the rise. Local pharmacies might evolve into clinics. Doctors and Nurse practitioners will provide more service to more people digitally. Wearable devices can track heart rates and glucose levels. Better eating and better living. Drugs manufactured in the US. Increased investment in biotech and science. Medical professionals, as well as pharmacy and grocery store workers, are the new superheroes. We must never forget. We must always remember and treat them with honor and respect. **Science is the solution.**



CIVIL SERVICE MAKES A RETURN

Here's a radical idea, which might not seem too radical. After High School graduation, all American citizens do a year of service for our country. It could be the Military. It could be the National Parks or the Peace Corps. Perhaps service at the city, county or state level. The goal would be to modernize our governments while instilling meaning making and a sense of patriotism for our younger generations to come. Growing up in these modern times, they have the technological knowledge and experience that can instantly impact our society with broad reach. Plus, a year between High School and College in civil service might result in more serious students as they enter higher education.



A MOMENT FOR OUR NATION

It's going to take time. It's going to require patience. An economy that is driven by consumer spending is going to struggle because the American Consumer is under great strain. Large purchase items like houses, cars and vacations will likely be on hold for a while. Spending will be directed at basic necessities.

Whatever it takes is expensive. The US was already sitting on a mountain of debt. The tectonic plates of spending are moving seismically. The mountain is growing. Aggressive spending is a necessity to protect the American people and support the US Economy during this period of shock. However, it is absolutely critical that a plan is developed to pay off this debt, so we don't later drown.

This virus has exposed the truth of who we are. The question we need to contemplate is two-fold: are we who we think we are and who do we want to be?

Once those questions are asked rhetorically or at the ballot box in November, America and Americans can chart the course for our future. If done right and done pragmatically, our best days lie ahead, and this moment has been the great wake up call. **The reality of our union is that it is imperfect. The greatness is that we admit it and strive to become more perfect.**

This is a moment for our nation. It's investable. It's an investment in our people. It's an investment in our government. It's an investment in our infrastructure. It's an investment in our institutions. It's an investment in our way of life. It's an investment in our future. Kicking the can down the road is no longer an option. We are investing in and for our future.