MV CAPITAL MANAGEMENT

Weekly Market Flash

Stay Buckled In, For Now

March 27, 2020

There are so many strands to this story, the unfolding drama of the coronavirus crisis that is dominating every aspect of our lives. But they are not parallel strands, neatly aligned and independently observable. They are like a chaotic pile of yarn, strands entangled with each other in a way that makes it hard to see the bigger picture that will emerge when the strands are finally woven into a purposeful end outcome.

Yet disentangle we must; our job is to make sense of very incomplete medical information about the nature and spread of the virus, digest the first of what will likely be a series of unprecedented economic data releases, assess the capability of fiscal and monetary policymakers to implement adequate remedies (and wonder about the future repercussions of those remedies) all while enduring the insane rollercoaster of outsize daily fluctuations in asset prices.

Much of what we will be communicating with you over these coming weeks will concern our ongoing efforts at disentangling these interwoven strands into a framework for understanding how this may evolve and what alternative outcomes may look like. We'll start by trying to take a big-picture look at the implications of the week just past.

New Cases Focus Shifts to US

For the past couple weeks the focus in regard to the spread of Covid-19 cases has been in Europe, and particularly Italy and Spain where both the number of new cases and the death toll have risen faster than anywhere else. As this week draws to a close, though, the attention has now shifted to the US. We now have more than 85,000 cases, higher than the China total (though we should also note that, for now, the US mortality rate is lower than those of Spain or Italy).

The trajectory of new cases and related deaths – the so-called "curve" you hear about if you tune into the various daily briefings by health professionals – is critical to our understanding of the potential scope and size of economic fallout. How the virus spreads will determine the ability of the medical profession to handle the growing number of urgent cases, with enough supplies and professional healthcare workers. It will also determine the pace at which businesses in different parts of the country can gradually return to work. There is no short-circuiting of this relationship: it will be the calendar of the virus, not that of human agents, that will determine the economic calendar.

Given how many things the experts still do not understand about the disease – such as whether it is seasonal or how the immune system builds up protections for those who are exposed and recover – there is a wide spectrum of possible outcomes here. A reasonable default case for when things start to get back to normal would span a time frame from late spring to mid-summer. Again, though, there is variability on either side of that estimate.

How Much More Stimulus?

Three things are worth noting with special mention in relation to the stimulus bill that passed the Senate this week (and is scheduled to be approved in the House today). The first is that the bill passed 96-0, a welcome bi-partisan feat we have not witnessed for a very long time. The second is that it was the largest

fiscal relief bill ever passed by a very wide margin. And the third thing is that, according to most economists assessing the economic impact of the virus, it is not enough.

The record stimulus passed during a week when another record-by-a-mile happened: the weekly filing for initial unemployment claims topped 3.3 million. The previous record set during the 2008 crisis was around 685,000. The responsible thing for Congress to do as the current bill is signed into law will be to get right on the next set of measures. There is clearly a rare sentiment of bi-partisan cooperation in helping the millions of families caught out by the disease and the resulting economic freeze to make their way to the other side. There is another side to get to – this will eventually end and life will resume. In the meantime we need creative thinking and putting aside ideological blinders to figure out better ways to more directly provide relief to those who need it.

Asset Market Uncertainty

For its part, the Federal Reserve undertook a number of stabilizing measures to bring some measure of calm to the asset markets, in particular the bond market distortions that were the subject of our commentary last week. The Fed's actions alongside the fiscal stimulus also helped equity markets recover a portion of their recent losses. But volatile conditions remain and it would be a good idea to stay buckled in for now – the twin demons of fear and greed are both actively afoot. Since the beginning of March, the average daily price gain or loss on the S&P 500 is 5.3 percent. By comparison the average daily price gain or loss for the month of October 2008, previously the most volatile on record, was just over 4 percent.

Much of the volatility can be explained by the changing nature of markets over the last decade, in particular the exponential rise in short-term algorithmic trading that now makes up around 70 percent of the volume of shares traded on a typical day. These short-term speculative programs normally have the effect of cancelling each other out: one algorithm says go this way, another says go that way. On some days though – and the past month has served up an outsize number of such days – the bots all go in the same direction and a tsunami ensues.

We are not short-term traders; we are in fact the opposite of short term traders. We believe the right thing to do now is to stay disciplined in a defensive position while the volatility plays out. There will be a time to turn towards more growth positioning, but that day, in our opinion, is not yet at hand. It will be a bumpy ride. But we will get to the other side.

Masood Vojdani
President & CEO

Katrina Lamb, CFA
Head of Investment Strategy & Research

Investment Advisory Services offered through MV Capital Management, Inc., a Registered Investment Advisor. MV Financial Group, Inc. and MV Capital Management, Inc. are independently owned and operated.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by MV Capital Management, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from MV Capital Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MV Capital Management, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting

MV CAPITAL MANAGEMENT

advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.