# The Compass - Cypress Trust Company

SPECIAL COMMENTARY

March 17, 2020

We are here to help you though these challenging and uncertain times. The Coronavirus pandemic is a biological issue that has become a global economic issue. Our goal is to provide you with insight and guidance.

The markets continue to trade with extreme volatility as all investors look for answers or just some sense of clarity that is affecting our daily lives. Citizens around the world are dealing with this virus in many different ways. With all the news coming out fast and furious we are now dealing with closures and isolations to hopefully limit the spread.

The markets are dealing with the double whammy of uncertainty of both demand shock, but also a supply shock. This is not only due to the precaution of less contact, but also many supply chains are in question. We have seen travel bans instituted but concerns surround if we can even get the completed goods to the end buy. This will affect earnings or even viability for some companies, but no one can forecast not only how much, but for how long.

**Past epidemics have tended to have a short-term impact on stocks**


| Epidemic | Market Returns 1-month | 3-month | 6-month |
|---|---|---|---|
| HIV/AIDS | -0.46% | -4.64% | -3.25% |
| Pneumonic Plague | -2.79% | -4.67% | -4.30% |
| SARS | 8.64% | 16.36% | 21.51% |
| Avian Flu (H5N1) | -0.18% | 2.77% | 10.05% |
| Dengue Fever | 1.07% | 7.09% | 9.68% |
| Swine Flu (H1N1) | 10.90% | 19.73% | 39.96% |
| Cholera Outbreak | -2.35% | 7.02% | 13.61% |
| MERS | -0.29% | 2.15% | 8.58% |
| Ebola | -0.09% | 2.37% | 4.37% |
| Measles/Rubeola | -1.71% | 1.92% | 2.29% |
| Zika | -6.05% | -0.88% | -0.57% |
| Ebola | -7.42% | -13.74% | -3.49% |
| Measles | 6.46% | 4.51% | 12.02% |
| **Average** | **0.44%** | **3.08%** | **8.50%** |

Note: MSCI World Index scale is reflected in the left vertical axis.

Source: Charles Schwab, Factset data as of 2/21/2020. Past performance is no guarantee of future results.

Both the Federal Reserve and Federal Government have stepped in. This is to provide current and future liquidity and financial support to what looks like a temporary issue, but what could last longer than anyone can plan for. While things have changed very quickly over the last 3 weeks, the economy was on extremely good footing heading into this. Where and how we come out of this is uncertain, but the framework is there to resume that trajectory after this passes.

From one of our research partners (Bull Market Report):
*Investors have some reasons to temper their fears, if not to turn optimistic. The world's major banking institutions are far better able to weather shocks than they were in 2008, and the underlying plumbing that keeps markets moving has yet to show the signs of seizure that characterized the global financial crisis. Large banks are less than half as heavily leveraged as they were in 2008, according to the Financial Stability Board. The current crisis is still evolving, but the relative strength of the world's major banks could end up making this selloff look more like Black Monday than the global financial crisis. The defining quality of the latter was the total arrest of the banking system. Better defenses against a similar outcome today should assuage some of the worst fears in markets right now.*

*Last week, U.S. futures triggered the 5% circuit breaker three times: once to the upside and twice to the downside. At the opening bell, the S&P declined 7% on two separate occasions and regular trading was paused for 15 minutes. And now the Fed has cut interest rates a full 1 percentage point in the past two weeks. This is new territory we are confronting, a perfect storm of uncertainty. We know the negatives: slower or no growth, unemployment, possible changes to daily life style. However, there are also many positives: interest rates are already priced as though they are going to zero, gas will soon be much cheaper, and the financial system is prepared for these wild rides. Looking out a few quarters, it has been our experience that these low rates will drive money back into equities. There just isn't any other place to go.*

Panic has set in with algorithmic trading perhaps accentuating its affects. It remains to be seen how great the extent this viral outbreak will be on global economic activity and how long this will last. In all likelihood it will be relatively short in duration. We already are seeing evidence that the rate of spread in the earliest countries to be affected has begun to decline and businesses are reopening, and people are going back to work. Efforts to contain the spread in other areas of the world will certainly have a positive impact and within a month or so we should see a much improving outlook. At some point prior to that, the markets should begin to anticipate the improved outlook and probably rebound in a similarly dramatic upward move. In the meantime, it will be impossible to predict a bottom in the market. During this time period we all need to assess the risk tolerance and allocation of our portfolios, while avoiding making major changes.

Our primary goal is to be concerned with health and safety, both personal and financially.

**Cypress Trust Company Investment Committee**

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