"Looking for Summer" *or* "Wake Me Up When Q2 Ends"

Greetings from my remote location!

This virus was moving so quickly ahead of the information, I had a hard time writing. I spent last week watching, reading and trying to study this issue. I was taking notes in real time. And that's about all I did.

In the meantime, most of you are most interested in my take on the economic fallout and market issues. Government prescriptions are just now becoming clear as I type today.

The following represents my beliefs. …and the information continues to change daily.

First of all, with regard to the volatility:

- We've largely *pre-planned* for this.
    1. We know recessions come around cyclically.
    2. This is why we discuss and adjust your portfolio stock to bond allocation.

There are Two Main Issues:

1. The Covid-19 coronavirus and public health.
2. The intentional planned-partial-shutdown of the economy related to social isolating.

The *Economic* Crux of the Issue

The question is:

- When will America largely be able to get back to work?

The economic timeline is dependent on the timeline of the Coronavirus.

Virus Timeline: "Expected" Case to "Clear the Epidemic" is Mid to Late June

On March 26, Dr. Scott Gottlieb, former head of the FDA and a regular commentator on the pandemic said the social distancing and social isolating seemed to be working. He said the peak in infections could occur by mid-April, or so. He then said, "It may take another 6 weeks, or so, to clear the epidemic in the US." He said that, at that point, there's a good chance companies can begin to look to operate in a more normal fashion. Gottlieb further said, "We'll need a plan for how we'll do this, but I think we'll get there."

This would be about 9 or 10 weeks of social distancing and social isolation for many. Many are working from home, many cannot. Although many are saying it will be earlier, and it could be, I believe *this* is the current expected case and is largely priced into stocks now. (1)

The Second Quarter of 2020 (Q2): *The Great Gulf*

We are widely expected to have a very sharp downturn in the economy in the Second Quarter (Q2). What makes this different is:

- It's an intentional planned semi-shutdown of the economy.
- The economy is largely expected to bottom in Q2.
- Economists are widely looking for the beginning of *some kind* of recovery starting in Q3. (2)

The News Will Likely Get Much Worse Before It Gets Better
As the days and weeks go by, I believe you'll be hearing a lot about:

- Rising unemployment and slowing economic activity.
  - The numbers will likely be eye opening. Again, this is all largely expected, but is just starting to happen now.
- Sharply rising Coronavirus infections.
  - The TV news will likely be unnerving to many, but, again, it's largely expected.
  - …and hopefully that's as close you and your family get to the virus.

Be Wary of Media Embellishments
We've recently had "the fourth largest Dow point drop ever" and the "largest Dow point gain ever." First of all, remember to think in **percentage terms**! Dow Jones Industrial Average (Dow, or DJIA) points tell us almost nothing. Biggest, best, worst, fastest, slowest is only good for getting eyeballs on the newscasts. There is usually very little *useful* information.

Markets Price-In News and Adjust for *New* News
I believe stocks have largely adjusted for the expected negative news that's coming. ***Unexpected*** good or bad news is what moves markets.

Filling the Gulf
We need to get by **Q2**, before we can potentially look ahead to some light at the end of the economic tunnel.

The Senate recently passed a $2T spending bill that is hoped to help fill the hole in the economy that's expected in Q2. The House is expected to pass the bill on Friday the 27th. It's expected the stimulus package won't prevent the economy from weakening, but will hopefully lessen the damage and help to support the eventual recovery. The bill will hopefully provide enough fiscal stimulus to:

- Help businesses weather the loss of sales.
- Help people to pay their bills during their downtime. (1)

Also, although not part of any law, it's widely believed that it's in the best interest of many creditors to work with borrowers to:

- Delay mortgage, lease and rent payments etc.

Why? Unlike most economic downturns, this one has the potential to be very deep, but potentially rather short. Since this is an intentional shut-down of the economy, it's believed many obligations may be simply pushed out a bit – to the benefit of both sides. (1)

The Markets
To the recent bottom, markets broadly fell off the February "highwater marks" by more than **35%.** This is about how much markets have fallen in an *average* recession. And we've seen very sharp movements both ways. Why?

As I've written before. I believe this is the "tug of war" between:

1. Those with stock-oriented money, currently in cash, looking to get in at good prices before the markets bottom and turn-up.
2. Those who are overweighted to stocks looking to reduce exposure before markets fall more.

3. This is what you get in these kinds of transitional markets.

Note: In all cases I'm referring to "professional investors."

The recent bottom may, or may not, have been *the* bottom, but I believe market bottoms are not an event, they are a *process*. Regardless, I wouldn't be surprised if we revisit the recent bottom again – and possibly several more times, as these kinds of markets tend to be very volatile, bouncing around in wide trading ranges.

Markets Move Ahead of the News

I believe the following is what confounds many investors:

- Although past performance cannot guarantee future results, stocks tend to move ahead of the news. They tend to fall before the bad news peaks and bottom in the midst of the malaise.
- Stocks turn up when you least expect them to do so – when the news is *bad* and looks like it will get *worse*.
- After making a final bottom, stocks tend to move up in *anticipation* of the "coming good weather." They rise with seemingly no tangible reason as to why they should do so.
- In the early stages of a bull market, stocks rise in the face of bad news, as the news slowly "becomes *less* bad."
- By the time investors are comfortable (i.e. "the skies turn blue"), stocks have often been going up for many months – sometimes years.

A NOTE ON HIGHWATER MARKS

Keep in mind, financial types measure pullbacks off of recent highwater marks. *I do this*. I sometimes forget to tell people it's unfair to focus too much on the highwater mark.

Sometimes people say, "I lost this much since (my highest statement)." Although this is *true*, it ignores what you've made over the years and it implies the markets are supposed to just go up in a straight line and recessions have either fallen out of fashion or have been outlawed. Likewise, I try not to get too excited about my own statement during the good times.

As I've written many times, "Highwater marks are merely mile posts on the long journey."

Recessions Are No Fun

As I've written many times, although past performance cannot guarantee future results, recessions come along cyclically and, like snowflakes, are all different – but they have three things in common:

1. They are *all* scary.
2. Although no one knows where the bottom is, all market bottoms have happened in the midst of the malaise. Prices do not drop for our convenience (so we can easily add to our holdings at lower levels with no anxiety).
3. All recessions have come to an end and the economy and markets have grown to ever-larger levels.

We'll Go Through Alternating Periods of Optimism and Pessimism.

I *know* this. I've been through this before. I've lived it for over 35 years. It can change almost *daily* especially during periods like this. When:

- Markets move down towards the recent lows, we'll feel pessimistic.

- Markets move up towards the new (most recent) highwater marks, we'll be optimistic.

Again, I expect the markets to move up and down in a wide trading range for quite a while.

So, Larry, We Just Get Through Q2 and Everything is Fine?
No, things are rarely easy. I believe:

- **Step 1:** The first step is getting people back to work, so the economy can live on its own.
- **Step 2:** We'll need an anti-viral (hopefully soon), and possibly an anti-body drug solution (hopefully within 6 months) to protect "at-risk" people, front-line healthcare workers – and to bridge us to the end game.
- **Step 3:** The End Game is a vaccine. There are a number of promising solutions being worked-on now (one has already started human trials, and in record time), but a proven safe and effective and widely distributed vaccine is probably a good 12 months, or so away. Why? Testing for safety generally requires a 6 to 8-month period after the last phase of trials begins. (3)

Things Will Look Different in the Coming Weeks, as We Adapt
People, companies and scientists will use their ingenuity to adapt to this challenge over the coming months.

There is an enormous amount of work being undertaken by the best minds in the world all looking to beat this virus.

I'm optimistic. In the words of Winston Churchill, "I am an optimist. It does not seem too much use being anything else."

In summary, I believe:

- We've largely pre-planned for this with our asset allocation.
- The current timeline is for a peak in infections by mid-April.
- The epidemic "may be cleared" by mid-June. At this point, we may be able to get back to some kind of normalcy.
  - The markets expect this and have already adjusted. Markets will adjust one way or the other as expectations improve, or deteriorate – beyond *current* expectations.
- In the second quarter (Q2) we're expected to endure a very sharp downturn. I believe the news will get worse over the next few weeks.
  - The markets largely expect rising unemployment and rising infections. Much of this is priced into stocks now.
  - If we "clear the virus" sooner, it would likely change our trajectory.
  - If we develop therapeutics sooner than later, it likely would change our trajectory.
- Although past performance cannot guarantee future results, recessions have three things in common:
  1. They are all scary.
  2. They bottom when things are bad – and it looks like things will get worse.
  3. All recessions have come to an end and the economy and markets have grown to ever-higher levels.
- I believe markets have either bottomed, or will eventually make a final bottom in the midst of the malaise.

- As markets tend to move well ahead of the news, after bottoming, markets will move-up in the face of bad news, in anticipation of better days.
- We'll go through alternating periods of optimism and pessimism.
- I believe science will be the answer. We'll use our ingenuity to adapt in the meantime.
- Me? I'm optimistic.
    - Although all recessions are different, I've been through this before.

Did you think this was long? I took a scalpel to my notes to write this portion. This is what many of you want. Many others want more (and more detail).

For those who are so inclined, I'll soon send the longer version, which, as you know, I call, "*For Those Who Dare to Venture Forth*." It's largely written.

Let us keep our eye on the horizon and please stay healthy!

Larry Eppolito
March 27, 2020

Sources:
1. CNBC
2. Goldman Sachs, JPM Morgan, First Trust, Nuveen et al.
3. Dr. Anthony Fauci, Director, National Institute of Allergy and Infectious Diseases (NIAID)

Other Sources:
- Center for Disease Control and Prevention (CDC)
- The World Health Organization (WHO)
- The Wall Street Journal
- New York Times
- The Atlantic
- Modern Healthcare
- The Boston Globe

Larry Eppolito
President, Eppolito Financial Strategies
Senior Financial Advisor, RJFS
CERTIFIED FINANCIAL PLANNER™ Professional

One Meeting House Road #14
Chelmsford, MA 01824
978-455-7799
larry.eppolito@raymondjames.com
https://www.raymondjames.com/eppolitofinancial/

The opinions expressed herein reflect the judgment of Larry Eppolito as of the date of the report and are subject to change without notice. Statistical information has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.

Opt-out
If you wish to opt-out of my group letters, please respond to this email or call me.

CAR: 3015808 (3/27/20)