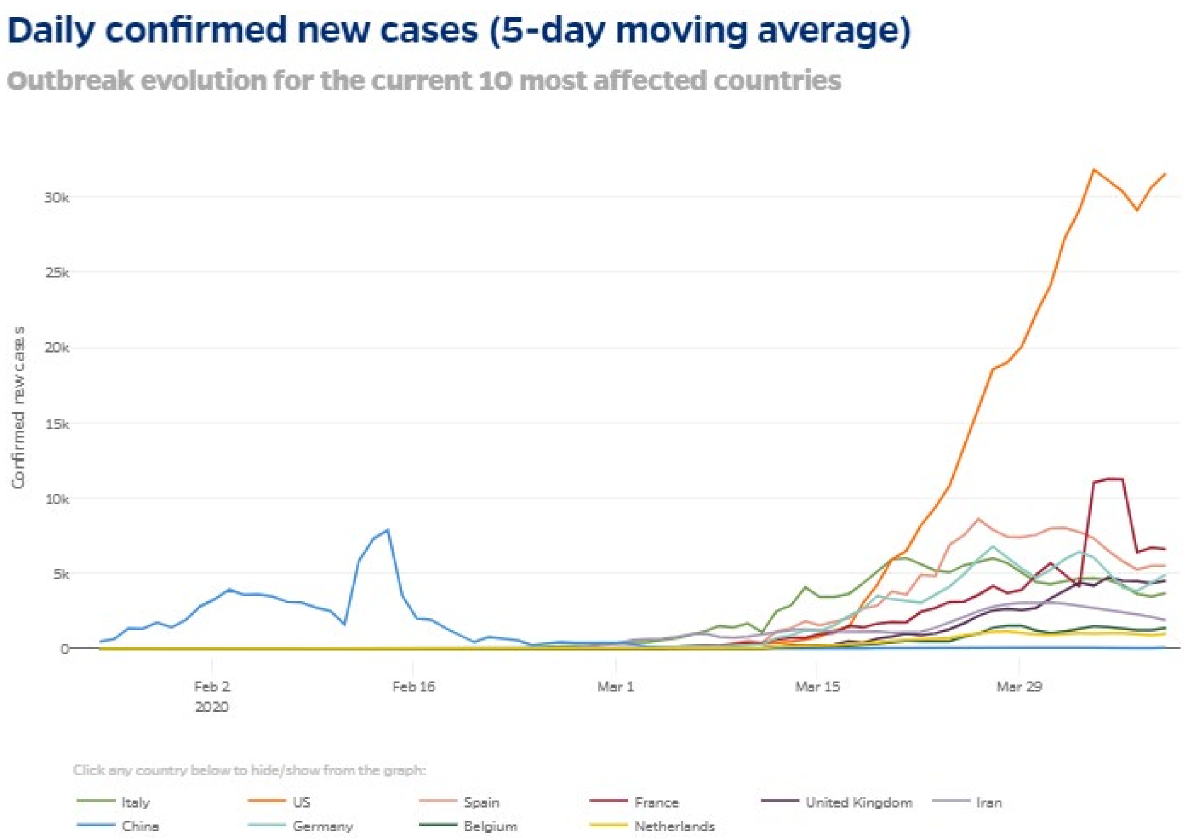
April 10, 2020

Dear Clients and Friends,

1.6 Million Coronavirus cases worldwide; 97,200 deaths
466,000 cases in US; 16,700 deaths

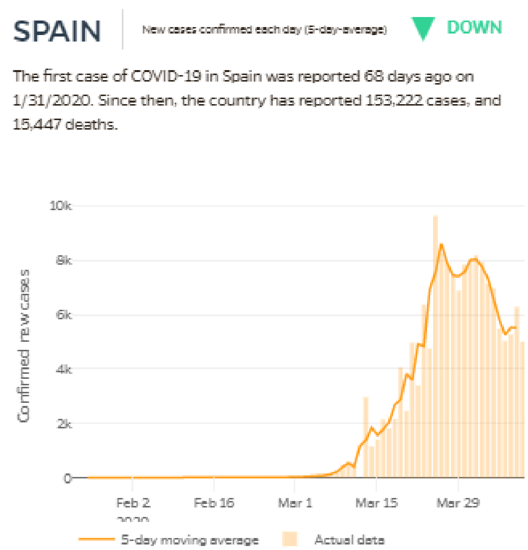
Is this the end of the beginning, or the beginning of the end? Both, I suppose, but more likely the end of the beginning. As usual, let's look at the situation from the viewpoints of the pandemic, the economy, the government and its response, and the markets.

There are several signs the pandemic is cresting, or nearly so, in many parts of the world.

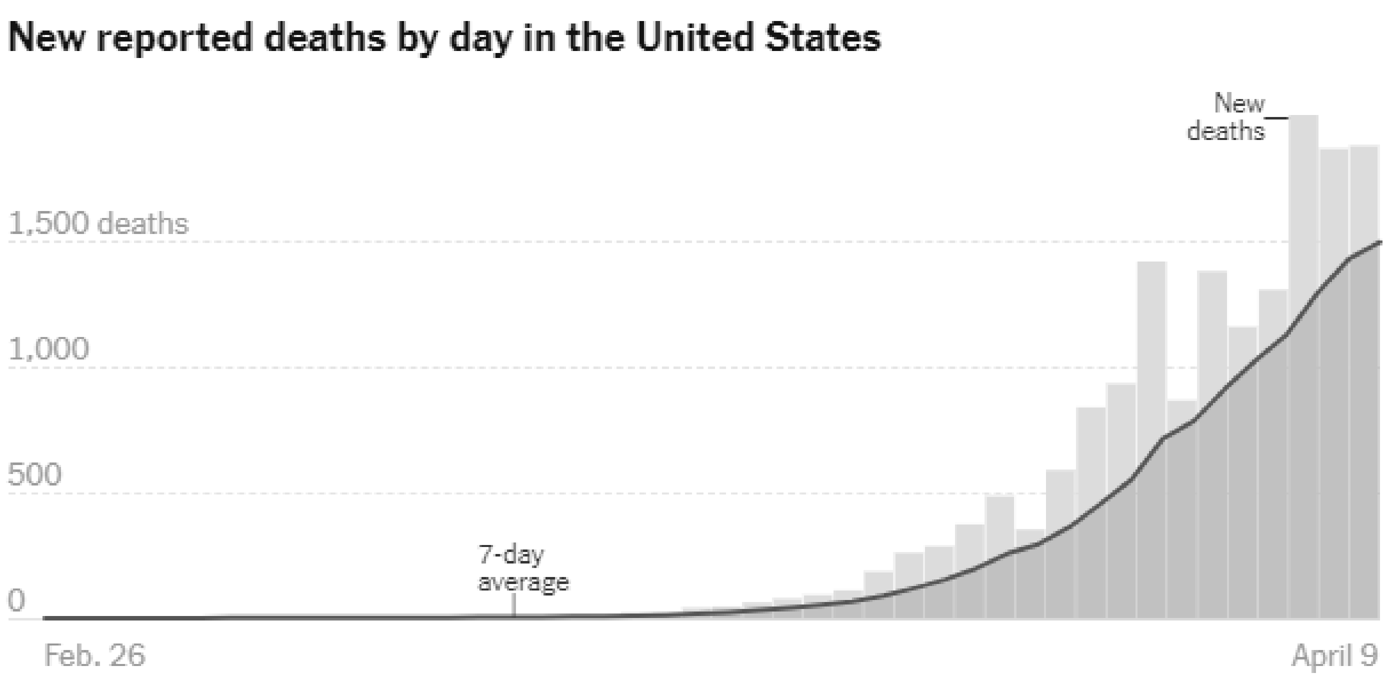


While it can be seen on this chart, CNN reports the US may have reached the peak rate of new deaths this week. It should be noted however, that the death count is under-reported. The NY Times reported that in the first five days of April, 1,125 people were found dead in their homes. That compares to 131 during the same period last year. None of them are counted in the COVID-19 statistics.

You can clearly see the decline in cases in Italy and Spain:



However, looking at US charts it is hard to be too optimistic until the curve bends:



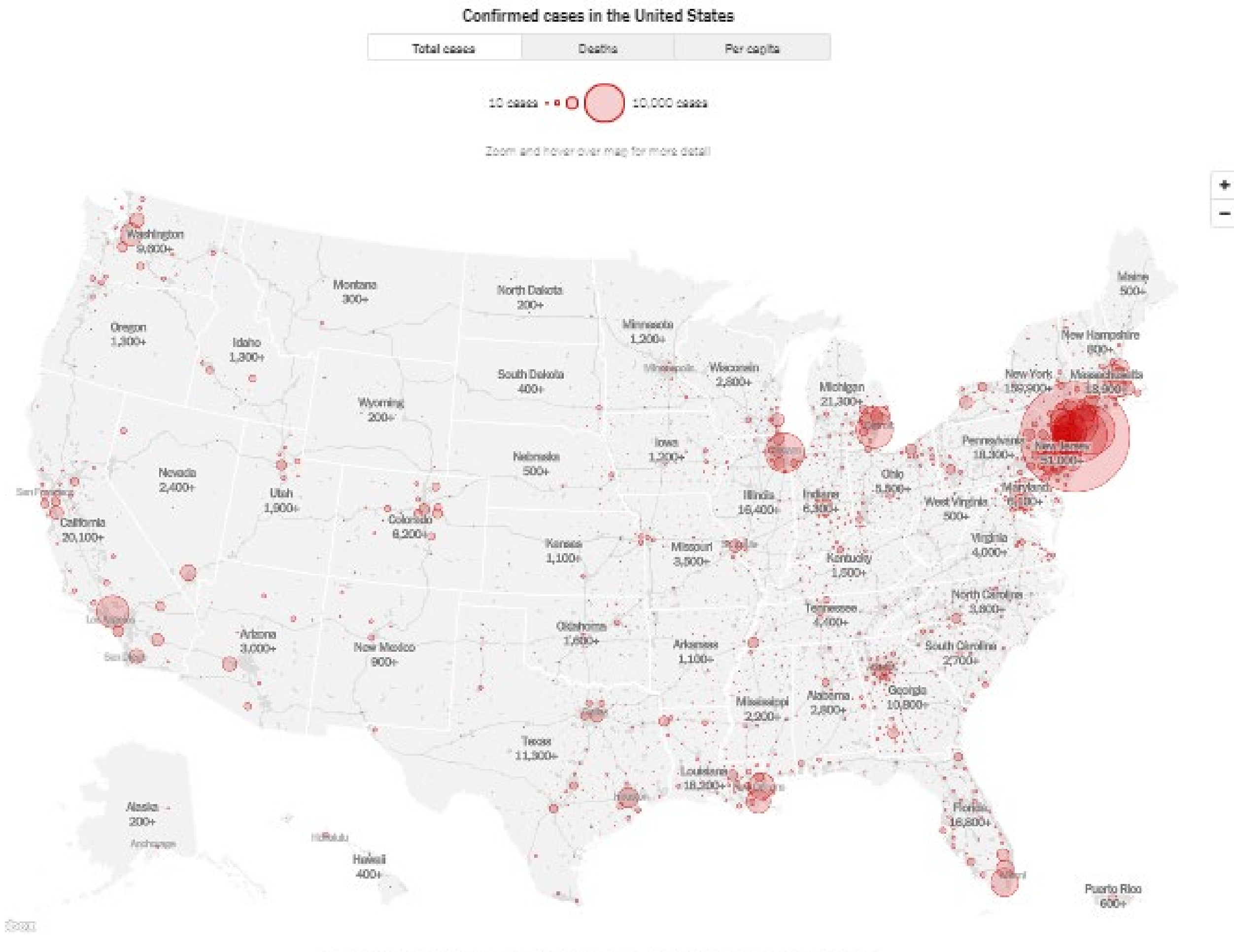
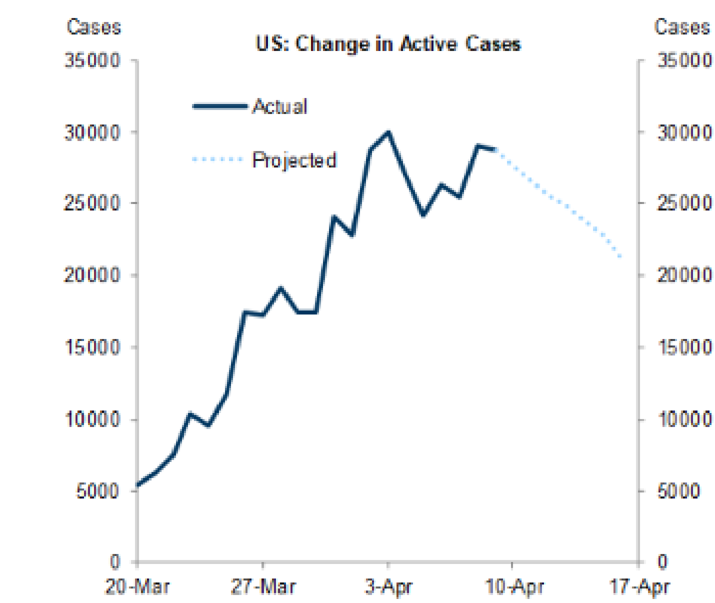


Exhibit 4: Baseline Projections of Changes in Active Cases



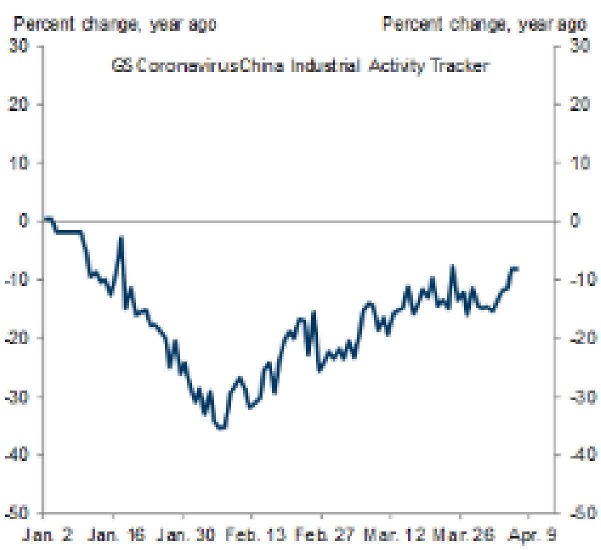
Finally, like many, Goldman Sachs has come up with a mathematical model to predict the growth in new cases. Based on the previous growth around the world, the projections are improving.

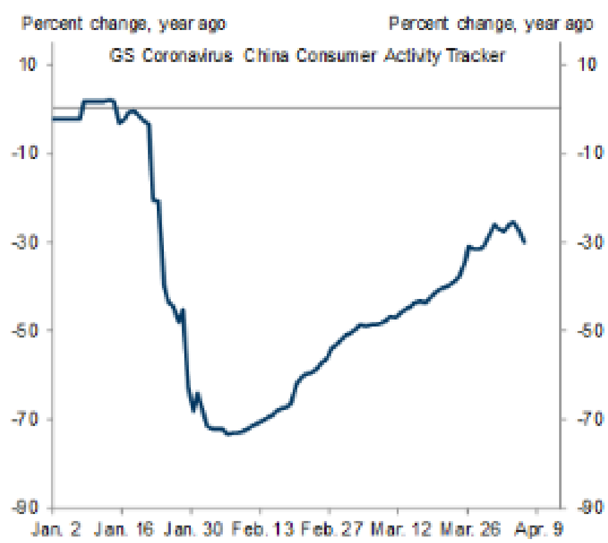
The federal government's response to the crisis has been slow in this never seen before pandemic. Timely supplying the protective equipment, ventilators, and testing needed has been terrible. Several state Governors have performed quite well, but if the economy and the markets are dependent on how quickly the pandemic is controlled, then the evidence implies it will take longer and be worse because of the response. As I have argued before, testing on a massive, national scale is necessary before we can get back to a normalized economy.

Signs of political chaos continue in Washington and elsewhere. The Senate is using the stimulus bills as a way to promote political aims. There continues to be an almost daily change in personnel – this week the Navy Secretary resigned, two Inspector Generals were fired, a new White House Press Secretary was named, and the fourth White House Chief of Staff began working. Bernie Sanders dropped out of the Presidential race, and voters in Wisconsin were forced to risk getting the coronavirus because of a lawsuit filed. A fight is brewing about mail in voting, and the California Governor has declared California is a Nation-State.

The government's response to help the economy has been swift and massive. I suppose if there is one thing politicians can agree on it is spending money. The Federal Reserve announced new measures this week to help the credit markets. They are now going to buy corporate bonds, collateralized loan obligations, and municipal bonds; and they are creating a new $2.3 Trillion lending facility to loan directly to states and municipalities. The announcement led to a 7% increase in high yield bond prices yesterday alone. As I said before, Fed Chair Powell, and Treasury Secretary Mnuchin are competent, and they have the benefit of having a playbook to work from.

The government's actions will help the economy recover, but we are falling into a pretty big hole. Another 6.6 million Americans filed for unemployment last week. That brings the total to nearly 17 million since mid-March. Like with the virus, there are some hopeful signs but they only come from looking at China's recovery. In other words, when we get the virus under control we can see that economic output will recover.





However, we are learning that the recovery is likely to be slower than we previously thought. Without testing, we will not know who is sick and who is not. We won't be able to go back to restaurants, or ball games, or get on airplanes and travel until we're comfortable that the people around us aren't going to give us the virus. So, while the recovery will happen it may take longer than we originally thought, and it won't be evenly distributed.

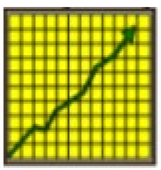
The markets, however, have started looking ahead (as they always do). The S&P 500 has risen over 20% from its low. Investment grade bonds (as measured by the Barclay's Aggregate Bond Index) have recovered all of their drop. The US dollar, which spiked during the first few days of the crisis has settled down. High yield bonds, which fell 23% have risen 20%. Only oil remains at its low.

This quick recovery creates something of a dilemma. Is it wise to jump in now, or has the market gotten a little ahead of itself? Will we get a better opportunity? I think the answer is the same as it was last week, and the week before, and the week before. It's unknowable. Analysts like me, look to prior periods for guidance; but I believe things have changed because of technology, market experience, and algorithmic trading. Things happen faster. The Financial Times reports that Bank of America analysts note that US equities have never taken less than six months to find their bottom, once they have tumbled 30% and the economy is in recession. I don't buy it.

My guess (and it isn't much more than an educated guess) is that we have seen the bottom. At the same time, I also think the market has moved a little too fast to the upside. Whether it's because of bad news, profit taking, a second chance to raise cash, or all three I would expect to see some consolidation of the recent gains. Of course, there is no way to know for sure or time it perfectly. If you've been scared (and who hasn't) this might be an opportunity to raise some cash. If you've wanted to buy, don't despair for not picking the bottom. The market is still 20% below its high. Invest some next week, and again the following week. If stocks go up, you'll be glad you bought some. If they go down, you'll be glad you can buy some more.

Enjoy your weekend. It will be a different Easter this year… no church services, no Masters Tournament on TV. In Colorado it is expected to be 70 degrees on Saturday with snow on Sunday. It seems a fitting parallel to the markets.

Take care,



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And Your Entire Colorado Financial Mgmt. Team

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