

# Market Watch with RMH

March 2020

The following is a quote from Franklin Delano Roosevelt’s first inaugural address, made famous for the following phrase:

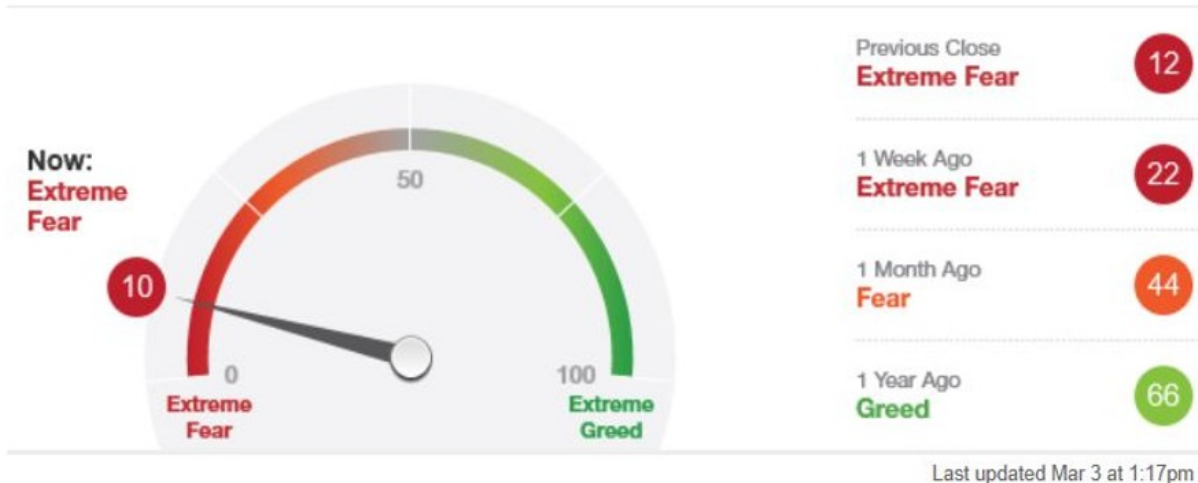
**“So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself - nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.”**

Incessant news drives behavior, and the media is profiting from fear it creates. Even for those who are not watching or reading the news, they are bombarded with constant updates for the Coronavirus (COVID-19), the U.S. political outlook for 2020, and the energy spat between two dictatorships, Saudi Arabia and Russia.

As a society we seem to thrive on fear and greed, and the media is manipulating the fear in all of us at the present. The following chart was published on March 3, 2020 from CNN. What is this supposed to accomplish, other than more fear/panic? Responsible reporting, **not in my book**. Online media publishes in a heartbeat, the quick-take is then completed. **No one reads the retractions (in part because no one can find them)**.

## Fear & Greed Index

What emotion is driving the market now?



Our framework for thinking about the Covid-19 virus suggests there are many unknowns, we are working diligently to monitor the risks. However reasonable thought suggests short term pain should give way to long term gains.

**The following link** is to the Johns Hopkins University, Center for Systems Science and Engineering for following COVID-19 more closely, and if so desired provides complete numbers worldwide. I would pay particular attention to Korea, as they have 7,755 confirmed cases, and only 54 deaths. My thinking is that they recognized the problem early, tested extensively, and were very open and transparent with the public and they have made modern medicine available to all.

<https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6>

Market volatility is at levels last seen in 2008 – 2009, and I can tell you first hand that the current economic/financial climate is nowhere close to what was happening at that time! Back then we had the following:

- Employed workforce 90%, **now over 96%**.
- Starting the Financial Crisis interest rates 3% – 7% across the yield curve, before they started cutting them to zero late, **now well under 2%** and parts of the yield curve close to zero.
- Energy prices are falling, and we have gone from a nation of importing 10mm barrels of oil/day in 2008/2009, to **exporting oil and natural gas**. A huge game changer!
- We will be receiving more industrial production (over the next 1 – 5 years) in the U.S. as a result of supply lines for **just in time inventory** being shifted to the U.S, for **just in case inventory**.
- A mortgage crisis just starting that was going to bring down two investment firms, Lehman Brothers and Bear Stearns, now nothing comparable. As an aside in 2008/2009, one of my colleagues from CFA Conferences around the globe, was shuttling between the Reserve Bank of New Zealand, The Federal Reserve, and the Chancellor of the Exchequer (UK), made mention when we got together in March 2009 that they (the Central Banks) had finally realized that letting the firms go under was a mistake, and no further firms would fail.
- Today's Federal Reserve has a "**game plan**" as opposed to being plain lost in 2008 – 2009. I vividly remember as I watched on TV, Tim Geithner's (Secretary of the U.S. Treasury under Obama) testimony to Congress, where he admitted they did not have a plan but were working on one. Market immediately tanked 5%, and at that time, I said "this is the bottom", and we started repositioning clients' accounts as I knew that after that admission they would have a plan!
- Finally, I was on a trading desk in October 16/19 of the year 1987 when the market fell 6% on the 16<sup>th</sup> and 23% on the 19<sup>th</sup>. Seems a lot of market commentators have forgotten this. This was the biggest two day drop in percentage terms. What has not been said is that loss was all recovered by Christmas of 1987.

In summary, this difficulty we are facing as a nation and across world, will be overcome. Our situation is not as dark as the press suggests.

We are monitoring the following:

- Potential supply side disruption. As China imposed a quarantine in the province of Hubei in China and restricted movement of workers for at least 3 weeks earlier this year, there could be a shortage of products for global supply chains. We are hearing the factories in China are coming back on line. However, there would be cause for concern if there are further supply disruptions, we will be looking for comments on truck and rail volumes.
- Potential demand side disruption, this is the serious one. As the press panics the public over COVID-19, public events / corporate travel, conferences, personal travel, are all being cancelled. This is problematic as it could be the start of a self-fulfilling prophecy of much slower economic growth.
- Our view is that in a number of weeks, the public will begin to reassess the danger of the virus spreading more realistically, and begin to increase the amount of retail commerce they do.
- At this time the US Federal Reserve (with other Central Banks) has gone out of their way to reassure the public/corporations that there will be no shortage of liquidity, unlike 2008/2009 (**this was the root of the crisis!**).
- If the virus is quickly contained as opposed to getting in a negative feedback loop (like the press is trying to do), then we will see positive economic growth.
- Employment declines so far have been negative. We will start to get worried if we start to see layoffs. As an aside our daughter who is working at the Bank of Texas in Houston, was given the tools to set up a home office just in case. This is one example of increased spending for the economy on a nationwide basis, as other companies do the same.
- It would be really nice to see a fiscal response from the U. S. government as opposed to just Monetary Policy (MP) stimulus. If you haven't figured it out yet, MP works for financial crises, **not health related crises**. Maybe the government can help... short term loans to small businesses, tax holidays, etc. After all, over 60 million people (2018 SBA) of the economy work in small businesses, such as this writer.

**In conclusion, no time for panic with regard to COVID-19!**

This past Sunday evening/Monday morning headlines emerged that a useless energy war between Russia and Saudi Arabia, was about to start, on top of all of the COVID-19 news.

Please keep in mind the following:

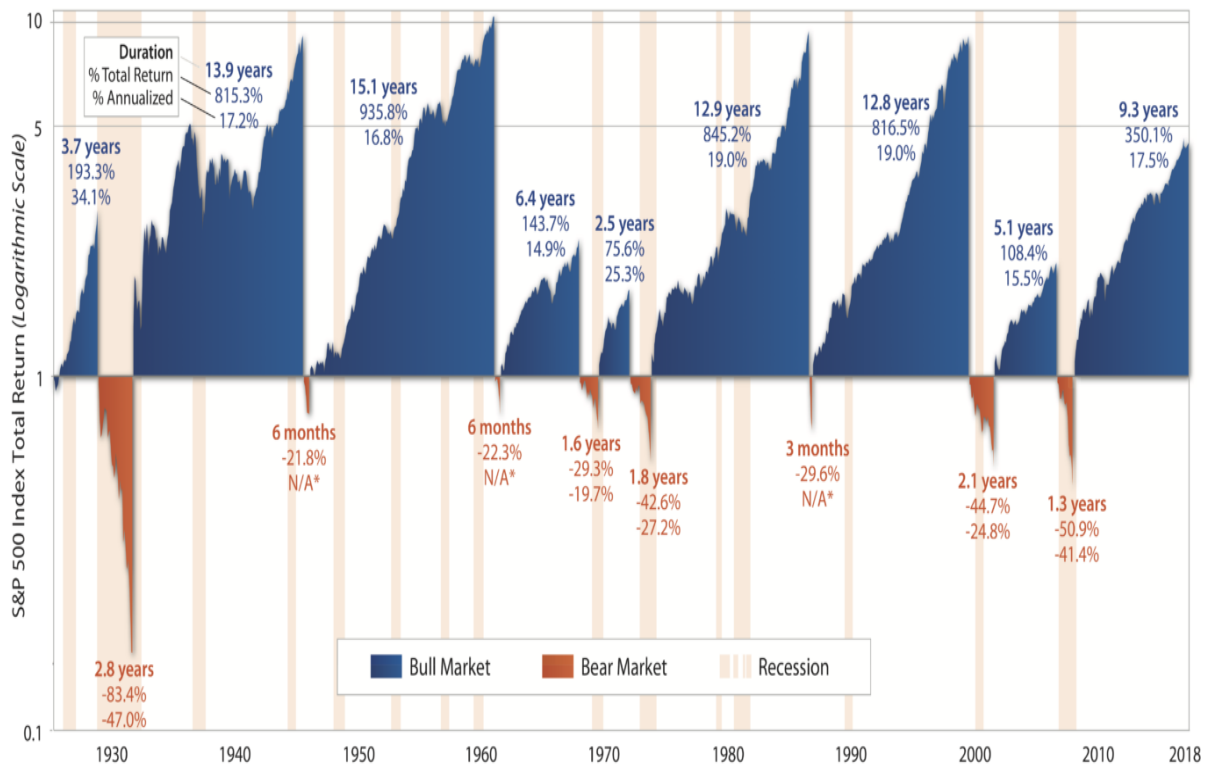
- Social services cost in dollars per barrel of oil needed for the social programs of these two countries: \$ 85 to balance the budget
  - Saudi Arabia needs around \$80/ per barrel of oil to balance their budget, financial reserves around \$490 Billion in USD. The U.S. gets less than 10% from the Gulf region.
  - Russia needs around \$42/per barrel of oil to balance their budget and have put their citizens through austerity to increase their financial reserves to their current level, of around \$500 Billion. Their power is to Europe as they supply the continent, a top 3 supplier in any given year. A market the U.S. is starting to penetrate.
- So you want to spend down your reserves to get back at each other and to try and drive the US Shale drillers out of business?
  - **I will put my money on the prospects of free markets, and the industrial ingenuity of the American people and companies!**
  - We have been down this route before, 2014 – 2015, when the Saudi's tried to disrupt our shale drilling. At that time we needed \$60/barrel to break even. They put a number of drillers out of business. Result, breakeven price in 2020 of \$40/barrel and falling. Some may go out of business, **however the permanent cost of shale drilling will fall again.**
  - The U.S. has large reserves of oil and natural gas, and we have diversified our economy!
- Saudi Arabia and Russia have the curse of too much natural resources they use to fund their social programs. They really need to diversify their economies.

Although we are going through a time of uncertainty, and the markets generally do not like uncertainty, we have been through all of this before and come out ahead. In my opinion the following chart strongly suggests good days lie ahead.

# History of U.S. Bear & Bull Markets Since 1926

This chart shows historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets from 1926 through June 2018. Although past performance is no guarantee of future results, we believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

- The average **Bull Market** period lasted 9.1 years with an average cumulative total return of 476%.
- The average **Bear Market** period lasted 1.4 years with an average cumulative loss of -41%.



Source: First Trust Advisors L.P., Morningstar. Returns from 1926 - 6/29/18. \*Not applicable since duration is less than one year.  
 The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.  
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*We understand that we are in a turbulent time, one that we have not faced for a while. As such, now more than ever, please reach out with any and all questions. We are here to help and guide you through these volatile times.*

Sources include the following:

Emerson Kent – history for the relaxed historian

Stephen Auth, CFA Hermes March 9 2020

Eric Clark Accuvest Global Advisors, March 5, 2020

Howard Marks letter March 3<sup>rd</sup>, 2020

Bret Jensen Seeking Alpha March 7, 2020

Peter Zeihan, Oil Wars Going Viral

<https://ritholtz.com/wp-content/uploads/2018/08/history.png> if you wish a bigger history chart of U.S. Bear & Bull Markets since 1926

Oilprice.com March 9, 2020

We thank you all for taking the time and reading “Market Watch.” It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us. Please feel free to always reach out with questions, thoughts, or comments. If there are ever any topics you wish us to explore, please share.

**On a personal note, RMH is now in the position to bring on new clients and please be sure to share this informational letter with whomever you wish. RMH’s focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients to better understand their goals, values, and passions for what is important in their lives. In expanding our client base, we look forward to working with people who share these same desires**

Richard Munding, CFA

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