RDM CAPITAL ASSOCIATES

WEALTH MANAGEMENT

First Quarter 2020 Market Commentary
April 2020

Update on Market Reaction to Coronavirus Developments

While the current coronavirus economic crisis continues, we will periodically offer our perspective on economic developments and market impacts for the foreseeable future. Most importantly, we hope all are safe and healthy during this historic medical crisis.

Equity markets, both domestic and foreign, continue to trade in wide ranges due to the growing number of coronavirus cases and increasingly draconian, but necessary, responses by national and local government leadership. The historically rapid market declines we have seen over the past month are a reflection of panicked investor capitulation amid fears of a sharp global recession and 24/7 news coverage. As of the end of the quarter, the S&P 500 declined ~ 20% year-to-date in 2020 despite a significant bounce at the end of March. It’s critically important to keep market volatility in perspective and stay the course with your investment plan if at all possible:

Stay the course amid market volatility

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Financial markets have been roiled recently amid fears over the impact of the fast-spreading coronavirus. These near-term disruptions to economic activity are the result of efforts to contain it. We see a downshift in 2020 global growth, with uncertainty around the size and pace of slowdown. While there are always unplanned risks, we do expect a rebound in activity once the disruptions dissipate and don’t see it derailing the U.S. expansion at this time.

What are key takeaways for investors? First, we encourage investors to keep things in historical perspective. Second, know the importance of staying invested, and avoid reacting in ways that could derail long-term financial goals. Finally, consider investment strategies to help you build a more resilient portfolio.

Keep things in perspective

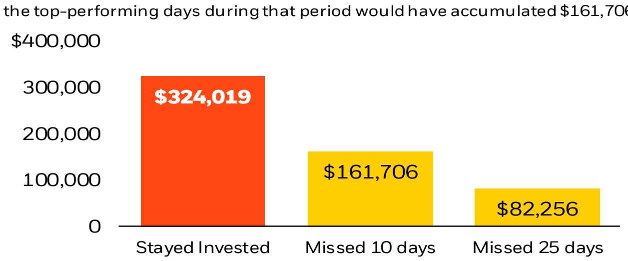
To provide historical context, the table below illustrates how the stock market responded during other past growth scares and bear markets. It also shows the period of positive market performance in the 12 months that followed these crises.

Dates of S&P’s biggest declines	Black Monday 8/25/87-12/4/87	Gulf War 7/16/90-10/11/90	Asia Monetary Crisis 7/17/98-8/31/98	Tech Bubble 3/27/00-10/9/02	Financial Crisis 10/9/07-3/9/09	US Credit Downgrade 3/10/11-10/3/11	Trade War 10/3/18-12/24/18
U.S. stocks	-33.5%	-19.9%	-19.3%	-49.0%	-56.8%	-19.0%	-19.6%
Next 12 months	+21.4%	+29.1%	+37.9%	+33.7%	+68.6%	+32.0%	+37.1%

Source: Morningstar as of 2/28/20. Returns are principal only not including dividends. U.S. stocks represented by the S&P 500 Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can’t invest directly in an index.

Stay invested

The chart below shows how a hypothetical $100,000 investment in stocks would have been affected by missing the market’s top-performing days over the 20-year period from January 1, 2000 to December 31, 2019. An individual who remained invested for the entire period would have accumulated $324,019, while an investor who missed ten of the top-performing days during that period would have accumulated $161,706.



Over the last 20 years, 24 of the 25 worst trading days were within **one month** of the 25 **best** trading days[1]

Sources: BlackRock; Bloomberg, Morningstar as of 2/28/20. U.S. stocks are represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. Index performance is for illustrative purposes only. It is not possible to invest directly in an index. [1]Only period without a corresponding best day within one month was September 17, 2001. Past performance does not guarantee or indicate future results.

For stock market investors, we always encourage a long-term perspective. Frightening moments of market panic have typically preceded significant market returns that are very difficult to time in the moment, as illustrated above. These times of great market turmoil provide opportunities to selectively and deliberately purchase high-quality stocks when they become irrationally over-sold. An investment strategy attempting to time short-term stock market fluctuations during periods of great volatility is usually unsuccessful or inconsistent at best. For short-term investors or those in retirement, we strongly encourage financial and retirement planning to ensure that funds needed for retirement income over at least a 1 – 2 year period are devoted to other asset classes not subject to stock market volatility.

As the stock market is typically forward-looking to a period of 3 – 6 months in the future, we expect the market to stabilize as the picture for a return to relative business normalcy in the U.S. begins to become clear, even if the coronavirus is still widespread. While it is impossible for anyone to predict when the virus may be controlled in the U.S., a review of the experience in other countries like China indicates a 3 – 4 month period of virus spread before we see real progress on medical containment. Given that efforts to social distance and isolate the virus in the U.S. began in earnest in early to mid-March, we'd expect the medical situation to improve by mid-summer and the market to factor in that probability and its subsequent economic implications over the next couple of months.

State of the Economy and Thoughts on CARES Act

Given the near total shutdown of the U.S. economy by the government to constrain the spread of the coronavirus, we do expect a sharp, short, recession over the second and third quarters of 2020, including a large increase in the unemployed. This was reflected in the record 3.3 million new claims for unemployment benefits the week of March 16th. We anticipate that second quarter GDP could drop between 15 – 20%, which would be like nothing seen in the U.S. since World War II. We expect a spike in unemployment as the restaurant, retail, hospitality, travel and transportation industries announce layoffs. Clearly, some of these job losses will not be recovered due to permanently closed businesses or structural changes in consumer demand.

On the bright side economically, in comparison to the recession of 2008-09, we expect the hit to corporate earnings to be more severe, yet the recovery to be much quicker. This is because the coronavirus is a large, temporary shock to the economy that does not implicate deep financial system reform like the housing market bubble and subsequent financial crisis. Currently, the economy desperately needs for the disease to be medically controlled through testing and isolation, treatment or vaccine (likely some combination of all three) and for cases to begin to stabilize or decline so Americans can resume work. Government financial assistance is also imperative to support the economy while healthcare professionals work to control the spread and the remaining workforce is at home.

The $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into on March 27th is a necessary step to provide the financial assistance noted above. Among other things, the package provides direct payments to many Americans (subject to an earnings cap) of up to $2,400 per married couple with an additional $500 per child, increased unemployment assistance and a student loan payment holiday, $350 billion in small business loans, $500 billion in financial assistance to larger businesses including $25 billion for airlines, and additional funds for state and local government support in combatting the virus. These measures are intended to directly inject funds into the economy as a stopgap until the economy can function at full capacity again. For more information on loan programs for small businesses offered by the Small Business Administration please see this guide produced by the Senate Committee on Small Business and Entrepreneurship.

Additionally, the government has announced other measures intended to provide economic relief to Americans that can benefit many investors. First, the CARES Act provides that retirees may suspend their IRA required minimum distributions for 2020. Second, the IRS has provided tax filing relief to most Americans that file their taxes on April 15th by extending this deadline to July 15th. Relatedly, IRA contributions for 2019 can be made up until this extended deadline of July 15th. Both announcements are intended to provide Americans with more time to financially weather the coronavirus storm and ideally avoid selling investments at a time of temporary market distress for tax payments or required distributions. Given that, as noted above, economists expect the impact of the coronavirus to be severe yet temporary, the stimulus bill and related economic assistance by other government agencies should be effective for the limited time period that the economy is shut down.

As usual, all comments are welcome and appreciated.