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MARCH 24, 2020

NAVIGATING A PANDEMIC - PART 4

THE FED, PRESIDENT AND CONGRESS PROVIDE A BRIDGE TO THE FUTURE

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Today, the DOW posted its biggest single day percentage gain since 1933, up over 11%. Volatility, good or bad, remains off the charts with all of the year's best and worst days happening in March.

GRAPHIC SOURCE: CNN

What exactly happened?

Put simply, the Federal Reserve, Congress and President Trump all agree on one thing: they will stop at nearly nothing to keep the economy going. The Federal Reserve has stated publicly that they will support and back the monetary system very aggressively. This is a very different turn from 2008 and 2009, when the Fed was very slow to act. They have stated that they "learned from the past" and are willing to intervene earlier and in a far bigger way. This week they did so, aggressively supporting the bond markets, cash system and banks. Last night, President Trump publicly stated that he wants everyone back to work within weeks, "not months", and authorized unprecedented spending. Today, Congress is close to a vote on a massive stimulus package to help workers, small businesses and corporations that employ thousands, with a plan that focuses more on loans than bail outs. Overall, the stimulus plan totals over 2 trillion dollars of economic support, which is beyond anything ever remotely considered before.[1]

[1] In another letter, at another time, we can address the hangover effect that must be addressed someday. Presidents, both Republicans and Democrats, have kicked the deficit can down the road. Soon, the can will get too heavy to kick.

But, please know this: It's not over. [2]

Every bear market has, at its center, a core issue that must be resolved to move forward. With the 9/11 pullback, the bear market could not recover until people felt safe again. That took time, and only then did the economic incentives work to pull the economy and the markets into recovery. With the 2008/2009 crisis, the bear market couldn't recover until there was certainty that the banking system would survive and continue to function. After the banks were stabilized, the economy and the markets began to respond to incentives. Today is no different.

At the center of this bear market is a health crisis. COVID-19 continues to spread and we still don't have proof that we have decelerated the infection rate. Until this happens, the core issue remains. To see a sustainable market rally, we would expect first to see an indication that the coronavirus is under control. Note that it doesn't actually have to be under control. The economy and markets just have to believe that it will be under control in the near future. Many things can trigger that feeling, from potential treatments (according to the Center for Disease Control, there are many treatments in various stages of evaluation), a vaccine (according to the World Health Organization, there are over 20 vaccines in development) or a deceleration of the infection rate (some are optimistic the U.S. will follow the deceleration pattern in China, South Korea and now Italy, though it is hard not to note that the U.S. is not following any of the protocols those nations instituted to achieve success, from total lockdowns to massive testing and tracking).

So, cutting through all the noise, where are we?

The bottom line is our core problem is still here. COVID-19 is highly contagious and at the current infection rate may overwhelm our health care system. As with everyone, we are hoping for the best, but the pattern, at least for now, has not changed. Given that everyone knows this, why is the market reacting positively to the financial support coming today?

Well, it is all about a bridge. A very important bridge.

Before COVID-19, the U.S. economy was exceptionally strong. Unemployment was very low and earnings were very high. We were living on an island with a very strong economy. As with all bear markets, this will pass, and when it passes, we will be on another island with a strong economy. There is only one thing between these islands, and the strong market that will follow, and that is a bridge. Economies weaken during bear markets. When there is widespread fear, everyone reduces their spending and economies can freeze. This makes some bear markets scarier than others because everyone goes from worrying about the root cause (safety after 9/11, lending after 2008, or COVID-19

[2] Buzzkill, I know.

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now) to worrying about whether the system will even survive. The Fed, President and Congress took that concern off the table. They are aware we are all on a bridge between our past and future economic stability and market strength, and they just committed big time to ***fortifying the bridge***.

And while that is good news, the core issue remains. How long is this bridge? Is it weeks or months, or even longer than a year? The answer to that can be answered only by resolving our core issue, the campaign against the coronavirus. That reality has not changed. Until it does, there is no time for high fives or celebrating. While we know it will pass, the reality is the crisis is not over yet.

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