

COVID-19 Update

We are all in this together





March 30, 2020

Dear Rebalance Client,

We hope that all of you are safe and healthy. We will make it through this difficult period together. Please do not hesitate to call if you would like to discuss the situation with us.

Here is an update on COVID-19 and how we at Rebalance are thinking about and approaching this very difficult situation.

Our perspective

Ultimately, the main cause of our troubles is a virus which eventually will run its course. That means there is a light at the end of the tunnel. What we don't know is how long the tunnel is, how much economic damage will be done while we are passing through, and how different the world will look when we emerge. However, we remain confident that we will get through this. Here is some of the data that supports our perspective.

Let's start with some of the positive actions meant to shorten the tunnel. The most recent week marked a major positive turn in our nation's approach to fighting the pandemic.

The Federal Emergency Management Agency (FEMA) is now fully engaged at the highest level (level 1). They will lead federal coordination and actively support states and territories nationwide with a focus on helping our public health system deal with this emergency.

The Defense Production Act may be used to help produce and distribute test kits, masks and ventilators by potentially taking over our manufacturing supply chain and controlling distribution and allocation of critical items.

We started a **"Phase 1" human vaccine trial** based on the Boston biotech firm Moderna's "vaccine candidate" on March 16th. We also discovered that some existing medicines may be effective as therapy for people with the virus. The initial vaccine trial is being run by Kaiser Permanente Washington Health Research Institute in Seattle. This will play out over a longer period of time of course, but it is a start.



Several states already have enacted **disaster declarations and “shelter in place” orders**. The states are showing some real leadership during this crisis. Everyone is being encouraged to self-distance, wash hands frequently and not participate in gatherings. For the most part, people seem to be complying, and we would expect this to have a positive impact on “flattening the curve.”

The Federal Government is in the process of approving a *historically large \$2 trillion stimulus package* crafted to help consumers and businesses.

The **Federal Reserve Bank (Fed)** is “all in” on helping the American financial system continue to function smoothly. The Fed cut the Federal Funds rate to zero, which should provide relief to a broad range of borrowers. It also signaled that rates likely will remain low for some time. The Fed also is supporting markets by purchasing massive amounts of financial securities (treasuries, mortgage backed, corporates) as it did during the Great Recession of 2007-2008. This program would appear to be open-ended. Finally, the Fed is backstopping money market funds. All of this is helping financial markets function effectively by providing critical liquidity where it is needed.

The U.S. tax filing date has been postponed until July 15th.

This is not an exhaustive list of positive responses, but it does demonstrate how seriously this crisis is being taken, that immediate and powerful actions currently are taking place, and that help is on the way. More must be done of course. There is no way to immediately reverse the situation, but we can “flatten the curve,” save lives, protect our health care workers and health system, and help individuals and businesses bridge the gap to a resumption of a more normal business environment. This will set the stage for better times ahead.

What about markets and the economy?

The major issue for financial markets now is that no one knows exactly what the near-term future looks like. For instance, economists’ estimates of U.S. second quarter Gross Domestic Product (GDP) average -10% ... but range from roughly down -5% to down -24%.



Many of us have been through several major stock market selloffs including 1987, 2000-2001, 2007-2008 and now the current turmoil. Every one of these periods was different, but also the same in that each featured major uncertainty and a lack of visibility on the path forward. Financial markets always operate with a certain level of uncertainty, but rarely are we subjected to situations this extreme. This is not a good backdrop for financial markets, and they are behaving accordingly with historic levels of volatility.

Financial markets will likely act on emotions, such as fear, until some level of certainty returns that allows for more rational behavior. While the near-term business and economic news is likely to be bad, we will start to get data on the magnitude of the short-term economic damage soon via government statistics and individual company reports. The truth will likely hurt, but we need to hear news, and to process it, to be able to move forward constructively. Expect considerably more data on the virus and the economy over the next few weeks and months.

During the recent [Rebalance webinar “Coronavirus and Your Investments,”](#) we discussed how the news very likely will get worse before it gets better. We still believe this. However, visibility and information should steadily improve from here. Financial markets are looking for data (more certainty) and positive inflection points, signs that the worst is over, even if it is against the backdrop of continued negative headlines. This means that there will likely be more volatility ahead. It may take time for the situation to settle down, and we want you to be prepared for this environment.

Rebalance is, as always, thinking long-term and promoting a long-term approach. This is a unique crisis. We understand that getting control over the spread of the coronavirus (officially called SARS-CoV2), and related illness (COVID-19), is the top priority and that protecting human life is critical. We are thinking about your portfolios, but above all we want you and your families and friends to be safe and healthy. We are optimists and believers in our collective ability to persevere and ultimately to recover from difficult circumstances. We believe that we will get through this.

We also understand how difficult this period is for you, our clients. We want you to know that we are here and available to talk through this. Please don't hesitate to call us if you would like to discuss your situation. Until then, we will continue to communicate with you more than usual and share our perspective.

Sincerely,

Scott Puritz
Managing Director

Mitch Tuchman
Managing Director