

March 6, 2020

A quick update on the financial markets as the Corona Virus spreads beyond China....

The financial markets have reacted with extreme fear in mind as government bonds and gold have risen sharply while stocks, oil, and other economic sensitive commodities have fallen. The 10-year Treasury Bond has hit a record low this morning at 0.7%. Stocks are at the lows of last week with the SP500 around 2900.

Just as this virus is the greatest threat to the sick and aged, the oil market is the worst-performing. Today, oil is down 7%. Russia would not follow along with OPEC in production cuts. Up to the recent virus, the demand for oil has risen for years pointing the supply problem. With the U.S. increasing its production of oil, there is way too much oil. Longer term, the emerging EV (electric vehicle) market will begin to impact the demand for oil in the next few years. EV's are taking over Europe and will soon be sold in the U.S. Also, the cost of EV's is dropping significantly due to the fall in lithium prices of about 50%.

A reminder of our long-term asset allocation philosophy...

Our long-term philosophy has been that funds needed from a portfolio over the next several years are invested in high grade bonds in a laddered approach. Further, stocks are invested for portfolio needs in the long-term. Over time, profits in stocks are harvested in stocks and reinvested into bonds.

Specific to client accounts, we reduced equity exposure a few weeks ago and increased our position in the Fidelity Conservative Bond Fund. We wish we had decreased stocks even more, but now it's time to think more about offensive, not defense.

The Federal Reserve move this week to lower interest rates by ½% this week...

The dramatic action this week to enact an emergency action to lower short-term interest rates did more to increase fear than to stabilize financial markets. A bigger issue is to provide liquidity to banks so businesses in affected industries will not face loan defaults. Further, the large cut in Federal Funds will hurt banks financially and make it harder for them to support lending. You can help them out by refinancing your mortgage. That remains the strongest recommendation this week. The government efforts would be best focused on the virus not on monetary issues.

When will stocks bottom out?

Maybe soon. The end of the week is a possible time frame as that is when investors panic and sell out. Today, we had a huge sell-off at the open, but stocks have risen since. Some of the worst hit stocks in the travel business are up now. Disney is up 33 cents; a stock being eyed for investment again. In next week's data, the number of virus cases in the US will be reported which will most likely spook investors again. Based on my new knowledge on viruses, this may be a one to two quarter economic impact. Given that cure in limited activity has short term economic consequences, investors may give stocks a "pass" if companies report bad earnings.

In portfolio action, the position in Gilead Sciences has helped hold up portfolios. Generally, client equity portfolios have held up better than the SP500. Looking forward, we will be looking for opportunities to benefit from the recovery in stocks, whenever that happens. In the short term, stocks may continue to be under pressure as panic selling and margin calls force the best stocks like Microsoft, Apple, and NextEra Energy are sold. Again, stocks are long term investments.

That's probably enough for today.

Andrew D.W. Hill, CFA
President and Co-Founder

Jennifer Figurelli, CTFA
Managing Director and Co-Founder

Disclosures

Information sources used to prepare this report include Argus Research, Value Line Investment Survey, Zacks, Barron's, Kiplinger's, Fidelity, and Decision Economics. Founded in 2010, Andrew Hill Investment Advisors, Inc. is registered as an investment advisor with the state of Florida and only transacts business in states where it is properly registered, or is excluded or exempted from registration requirements. Andrew Hill and clients of AHIA hold positions in the investments mentioned in this report. Please contact Andrew Hill Investment Advisors, Inc. if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth in Part 2 of Form ADV and is available for your review upon request. Tax and estate planning advice is general in nature and the firm is not engaged in the practice of law