



BLBB Advisors, LLC – Weekly Market Update

Friday, March 20, 2020

Given recent events, we are temporarily replacing our 1st quarter 2020 economic update (that was due to come out in early April) with a weekly series of brief economic and financial market updates. We decided to do this in order to provide you more timely information about what is happening in our economy and financial markets as a result of the Covid-19 pandemic.

Before we get to the economics, however, we want to reassure you that all of our employees are healthy and we are fully operational. Pennsylvania, along with New York and California, is one of the first states to shut down all but life-sustaining businesses. While this means we will not be able to operate in our office for the next month or so, it does not mean that we are unable to conduct our business as usual. It just means we are doing so from our homes. Fortunately, we have a sophisticated suite of technology tools and a dedicated staff that enable us all to work remotely as if we were in the office.

As we close out our first week of quarantine around the country, we are almost exactly one month into a new financial market environment featuring extreme volatility and a strong downward bias. On a year-to-date basis, the S&P 500, for example, is down about 26%. This new trend began on February 20th after most of the major US equity indices hit all-time highs on February 19th. The fall since that day has been nothing short of historic as it took just 20 days for our 11+ year bull market to end and a bear market to emerge. This was the fastest slide into a bear market ever. At the same time, the VIX (an index that measures US equity market volatility) reached an all-time high of 82.6 – a higher level than was reached during the 2008 financial crisis.

The extreme activity in US and global financial markets over the last month is reflective of the massive uncertainties brought on by the worldwide spread of the Covid-19 virus. From an economic perspective, investors are grappling with such currently unanswerable questions as how long will the virus last in our country? When will we reach the peak number of cases and begin to make progress against the spread of this disease? When will we have a treatment and/or a vaccine? How long will businesses have to be closed? What will be the economic impact of the shutdowns? When will our country and world return to normal?

There are many predictions as to how the virus will spread throughout the US and when it will finally begin to dissipate. We are currently in the expansion phase and the number of confirmed cases is on the rise. Some of the rapid increase in confirmed cases we are now seeing relates to much higher numbers of people getting tested. These are people who already had the disease – they just didn't know they had it. At some point, however, the business shutdowns and social distancing practices should begin to have an impact and help to slow the spread of the disease. It seems hard to believe now but, at some point in

the probably not too distant future, the disease will have run its course here and overseas. When that happens, the recovery will begin.

While we do not know how this will all play out, we think it is possible the shutdowns around the country could last for another 1 – 3 months. Because the shutdowns did not all begin simultaneously, they most likely will not all end at the same time either. Similarly, as the disease moves through different parts of the country, some communities will be on their way to recovery while others are just starting to reach peak infection rate.

While this is an event that none of us has experienced before, we can look to China, Korea, and Japan to see how they have achieved and crossed over the peak infection rate and their economies are now beginning to emerge from stringent shut downs. Wuhan China, where the disease presumably began, went into a strict lockdown on January 23rd. Other Chinese cities followed suit and major retailers and tourist destinations also soon closed. Now, just about 2 months later, China is not reporting any new local coronavirus cases. Businesses in Wuhan are beginning to reopen and life is slowly returning to normal.

With this 2 month window as our guide, we believe it is possible at least some communities around the country will begin to return to normal in late April or early May. The government is currently projecting the event will end in the US sometime mid-summer.

Fortunately, there are massive collaborative efforts underway to develop effective treatments and a vaccine for the disease. On the financial front, the US government has also begun rolling out significant fiscal and monetary stimuli designed to support businesses and citizens as they grapple with the sudden loss of economic activity around the country due to the shutdowns.

We recognize this event has upended everyday life for every one of our clients. It is a difficult and stressful time. We are always available for a call or meeting (virtually!) should you have any question or just need to talk. We hope that you and your loved ones are safe and managing well through this unprecedented quarantine period. Please stay tuned for our next update on Friday, March 27th.