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History 101:

Many times we look at situations in the stock market and believe they are unprecedented because we have not seen anything like it in our own lifetime. In 2008-2009 nearly 22 million workers lost their jobs. It is possible we will see 6 million job losses due to the coronavirus or as high as 25 million for the most pessimistic of those among us.

Everything we give you in these updates is based on history and empirical data.

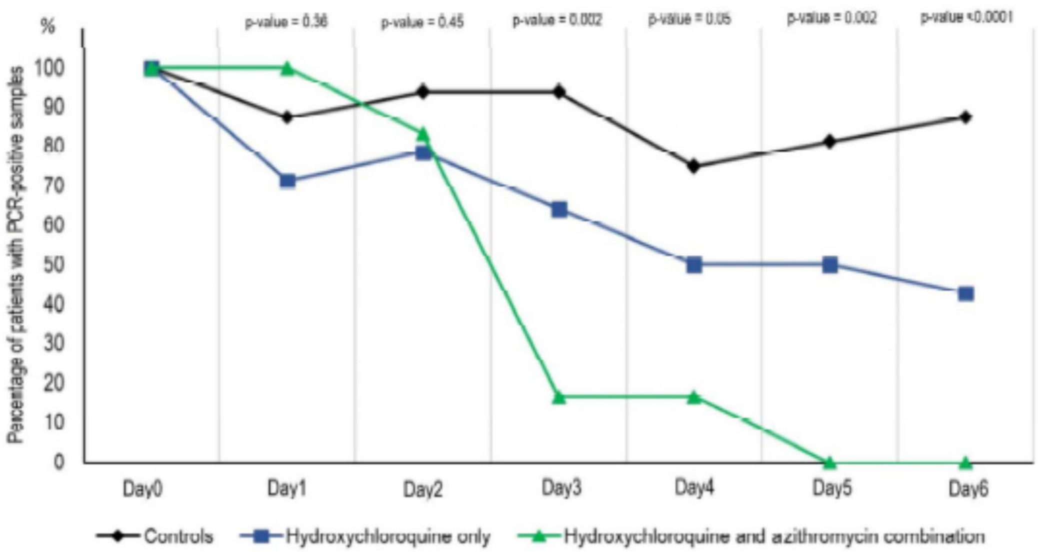
Fact #1: The flu outbreak that occurred in the fall of 1918 killed 50 million worldwide and 675,000 Americans. It caused a 7-month recession in the USA that lasted until March 1919. Fortunately, medicine is better today, communication is better, the way we work is different, as is the way we live. We are more mobile, we are more educated, and we are better prepared than we were in 1918.

Fact #2: There have been 16 down years in the S&P 500 over the past 75 calendar years. The S&P 500 has achieved an average annual total return of 14.8% in the calendar year following those 16 down years. This is 3.5% greater than the average return over the 75-year span.

Fact #3: China has closed all 16 temporary hospitals it opened just for the Coronavirus. Apple has opened all 42 stores they closed in the Wuhan area. Starbucks has reopened most of their cafés and the CEO of Dow Chemical said Chinese orders are resuming. China is getting back to business.

Fact #4: We may be on the verge of having medication which treats the virus as well as a potential drug that neutralizes it for 8 weeks. Below is the combination of hydroxychloroquine and azithromyacin. It appears it wiped out the virus within 5 days of taking the combination together. I know the chart is hard to see, but it is online as well if you would like to read the info for yourself. Assuming the promising results of this combination therapy continue, and once the medications are widely available, the game has changed and our economy will be about repairing the damage done to certain industries and individuals.

Figure 2. Percentage of patients with PCR-positive nasopharyngeal samples from inclusion to day6 post-inclusion in COVID-19 patients treated with hydroxychloroquine only, in COVID-19 patients treated with hydroxychloroquine and azithomycin combination, and in COVID-19 control patients.



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We expect the market to bounce around through mid-April regardless of what Washington does. We need to see the numbers of new cases trajectory start to fade. When this happens, we will see businesses open back up and confidence begin to return. We have taken steps in portfolios to mitigate risk for our clients and take advantage of potential long-term opportunities. It is important to know that although GDP growth will be negative (maybe similar to 1958 when the Asian flu caused a 10% annualized decline), there are certain parts of today's GDP that will not feel nearly as much pain. Think of rental value of homes, health care, government purchases, or groceries. We would also guess that many of the technology companies will fare very well in this downturn.

Once we see the new cases trajectory decline, we expect to invest back into the market fully and focus our purchasing in the areas of Healthcare and Technology. We believe these two areas of industry will change dramatically as the United States refocuses on the now obvious importance of producing critical medications in our own back yard. Likewise, Technology and the way we do business will change as we become more nimble and understand ways to work and learn in a productive manner from multiple locations. This may hurt commercial real estate in some ways and help in others. However, the two big winners we estimate will be Healthcare and Technology over the next 5 and 10 years.

The Silver Lining – In all 11 bear markets (and this is one) that suffered at least a 20% decline in the S&P 500 index in the last 75 years, before last week's 12th bear market, the stock market eventually recovered 100% of the loss before the downturn and then went on to make a new high. The average time it took the stock market to make this new high – 24 Months. This too shall pass.

Looking Ahead:

We now see a recession for the first two quarters of 2020, and then expect higher than normal growth as we rebound in the back half of 2020. We will make adjustments in the portfolios to benefit from expected growth once we see the number of new cases level off. We know GDP, earnings numbers, and unemployment is going to be ugly. They will report on what has already happened, not what will happen. We are focused on the latter ultimately. The United States is undefeated in comebacks and this time is no different. You are likely to hear plenty of negative news about the economy, the spirit of America will prevail. It always does.

Regards,

The Archer Team