TAYLOR FINANCIAL GROUP, LLC
THE RIGHT PARTNER CAN MAKE ALL THE DIFFERENCE

May 11, 2020

Greetings,

We are pleased to be able to reach out to you with better market news around the COVID-19 pandemic than in previous communications. New cases of the virus seem to be moderating, and since its 34% decline, the S&P 500 has quickly rebounded 25%. While it is our priority to focus on the financial markets and the economy, we sincerely hope you, your family, and loved ones are staying safe. We recognize the economic numbers we discuss are not merely data points, but represent people who have lost their jobs and are going through difficult times. This is a stressful period in our history for so many, and we hope everyone can find the relief they need soon.

Market optimism has risen around the global slowing of new cases and deaths caused by COVID-19 and the Federal Reserve and Washington have announced an unprecedented level of monetary and fiscal stimulus. This caused U.S. equities to rally significantly from 2020 lows. Despite this recent rally, we do believe investors may be a bit too optimistic, as many unknowns remain. We think keeping a balanced perspective is important. We would not be surprised to see a moderate pullback in stock prices for a few reasons.

First, optimistic investors point to evidence of improvement in many European nations, and domestically, incremental case counts have come off their highs. While Europe has seen declining case counts with widespread testing, positive test rates in the U.S. remain elevated, and we will need more widespread testing to validate that infections are in fact declining. This leads us to believe that our return to a more normal domestic routine will take more time.

Second, there is still uncertainty around the economic impact of the virus. Recently, we have seen terrible economic data that includes over 26.5 million newly unemployed Americans in just five weeks, a sharp decline in national and regional manufacturing activity, and poor readings on consumer spending. Social distancing measures designed to limit the spread of the virus have clearly caused an abrupt halt to a considerable amount of economic activity. Optimistic investors point to the fact that we are potentially looking at the nadir of this dip; however, in our opinion, there is no clarity around how long the virus will last and the resulting negative economic impact.

Third, because the oil industry and its suppliers employ millions of Americans, the sharp drop in oil prices has impacted the U.S. economy, with some energy-related companies facing the threat of disruption, layoffs, and even bankruptcy. With many oil-producing nations agreeing to reduce supply, optimistic investors have taken this as a sign that oil prices will rise; however, we are skeptical because we expect demand to fall by a greater degree.

For these reasons, we continue to expect a near-term pullback in stock prices. Beyond near-term weakness, our base case remains a slow market improvement as policymakers continue to work to reduce the virus spread and limit its economic disruption. A second wave of infections or a new vaccine or treatment breakthrough would likely change this base-case scenario.

We do think there will be opportunities in this market, but we are looking for more clarity before we get too optimistic. These are challenging times, but we are here to help you stay on course with your long-term goals. As a reminder, we have a team of seasoned investment professionals working relentlessly to monitor news about the virus, understand the market implications of economic data, and most important—keep you informed.

Sincerely,
Debra Taylor, Wealth Manger, CPA/PFS, JD, CDFA