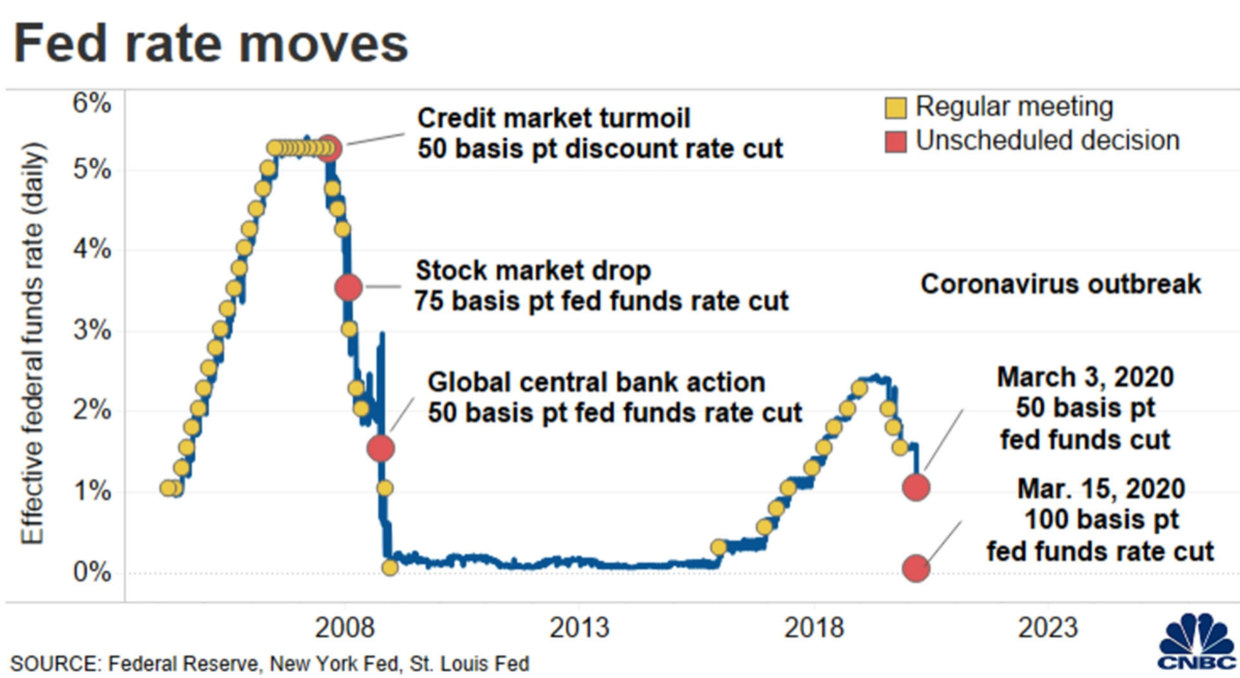
Courier Capital, LLC
Registered Investment Adviser
An affiliate of Five Star Bank

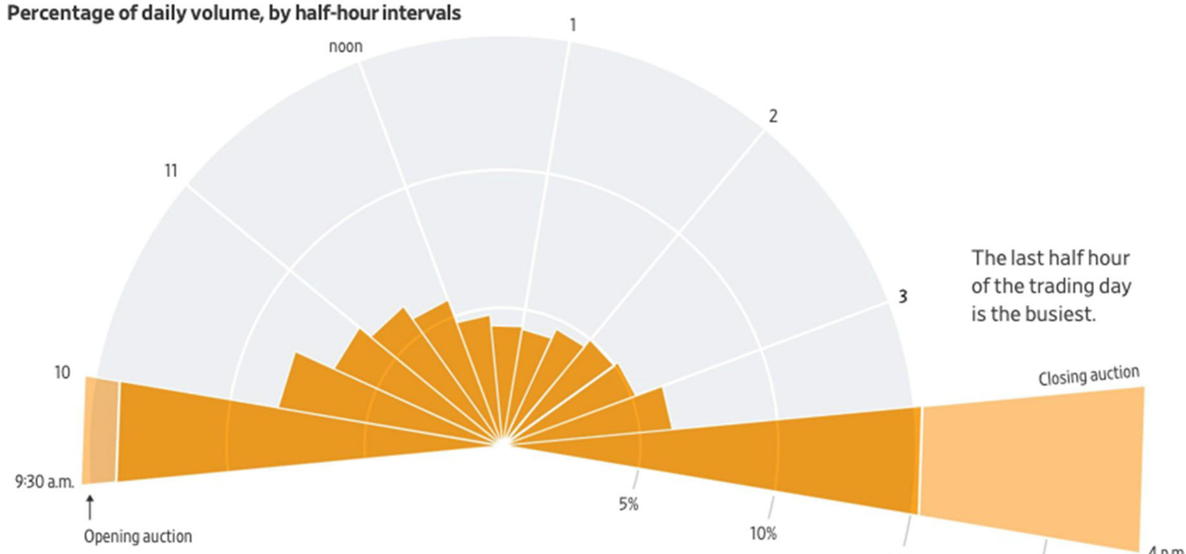
COVID-19 and the Markets – Update March 15, 2020

Last week saw the Federal Reserve (Fed) announce an injection of $1.5 trillion to the interbank lending market which is the basic plumbing of the financial markets. You may have heard this market referred to as the repo market. This supply of liquidity allows banks to meet credit drawdowns by large and small businesses and relieve balance sheet strains on the banks which might have prevented them from providing credit during this market volatility. The Fed is also making a few smaller technical changes in its purchase of treasury securities to help in this effort and in the prior week also reduced short term interest rates by 0.50%. Over the weekend the Fed further reduced short term rates effectively down to 0% and is also buying $700 billion of government and mortgage-related bonds to protect the economy from the impact of the virus. It also announced the easing of lending standards for banks and access to its discount window at historically low rates if banks need to borrow for operations. The Fed announced they will use the full range of its tools to support the economy and and the smooth functioning of the markets. Jay Powell, the Chair of the Fed, stated "We will maintain the rate at this level until we're confident that the economy has weathered recent events and is on track to achieve our maximum employment and price stability goals."



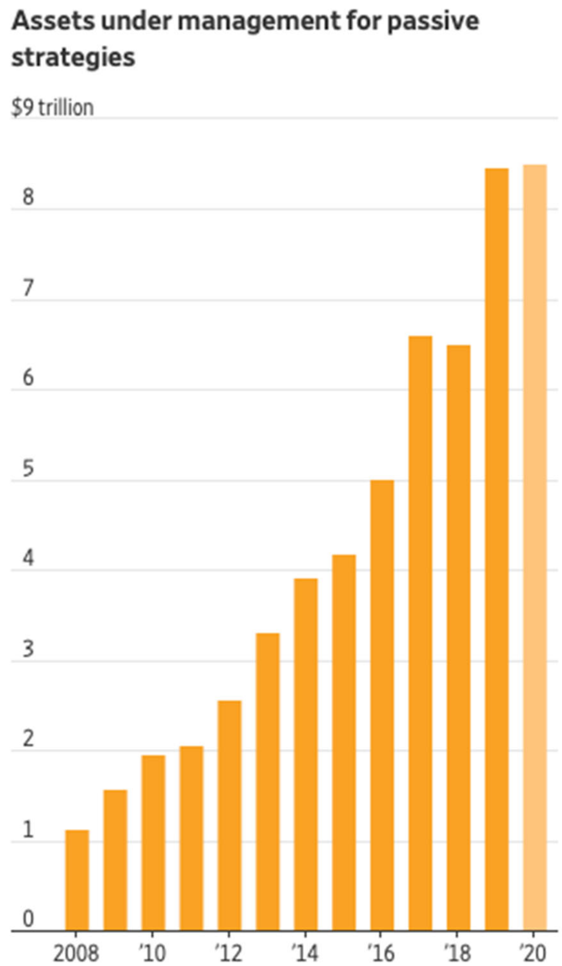
The administration declared a national emergency which released $50 billion in resources to help Americans who are affected by the virus outbreak. In addition to this declaration, Congress had previously approved $8.3 billion in emergency spending that sent funds to states to help with the virus response and includes $3 billion in funds for vaccine research. Over the weekend the House of Representatives passed an additional bipartisan bill that included measures such as additional funds for programs such as unemployment insurance benefits, tax credits for businesses offering new medical leave benefits, funds for local food banks, and other programs designed to assist individuals if they experience any economic dislocation.

The markets showed continued volatility last week and investors displayed their disappointment with the collective government response to the COVID-19 coronavirus quite strongly on Thursday. On Friday the Dow Jones Industrial Average turned around and had its largest one-day point gain in history and the largest percentage gain since 2008 as the government announced a bipartisan bill and other measures aimed at helping individuals and businesses deal with potential economic fallout from the virus. Much of this volatility occurs at the beginning and end of the trading day. About 23% of the trading volume in the largest stocks occurs in the last half hour of trading. As can be seen in the chart below the half hour increments of trading between noon and 3:00pm typically sees 5% or less of the daily trading volume.



Note: Data based on top 3,000 stocks by market capitalization, from Jan. 1 to March 6.
Source: Pragma

This trading volume dynamic reflects investor's positioning of their equity exposure to the ever-present change in the news flow about the virus and various government announcements. With the growth of passive index funds in investor portfolios, as investors make these decisions they are not selling or buying individual companies based on their specific fundamentals but are selling or buying the entire market or subsets of the market. This has contributed to these large swings in volume across all stocks and by extension the large moves in stocks up and down. This will create opportunities as we move beyond this outbreak. Twelve years ago passive funds totaled about $1 trillion in assets versus today where these funds hold over $8 trillion in assets. These funds are a much larger portion of overall investor wealth and therefore they represent a bigger impact on the trading activity of the markets.



Note: Figures for 2020 through January. Includes exchange-traded and mutual funds.
Source: Morningstar Direct

With the release of a substantial amount of test kits, we expect the confirmed cases of the virus to increase which will contribute to the volatility in the markets. The equity markets have reset their valuations providing a better long-term return outlook but at a difficult current cost. We will continue to focus on quality and valuations in the markets. The market volatility and coronavirus headlines are unnerving, and we all feel like we should do something. The fight or flight instinct comes out when we are threatened, and to protect ourselves we may want to sell investments that worry us. We always think we will get back in when things are calmer but as we know, there is always some cause for concern. Over just the past 18 months we have had an inverted yield curve, recession fears, a government shutdown, a long trade war, and a potential military conflict with Iran and in front of us a presidential election to go along with the coronavirus worries. Investors often assume they will only be out of the market for a short while until things are clearer. This coronavirus issue shows how hard that expectation can be to execute. We know quite a bit more about the coronavirus than we did several weeks ago but this doesn't make it any easier to predict the future or invest. The proper response is to assess our portfolio's asset allocation to see how it lines up with our long-term goals and objectives. As always, we look forward to speaking with you about your portfolio and your goals. We will talk to you soon.

Should you have any questions please contact us.

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