



600 South Adams Road, Suite 100
Birmingham, MI 48009
(248) 556-2900
www.bernard-wealth.com

First Quarter 2020 Newsletter



Fig. 1 – S&P 500



Fig. 2 – U.S. 10-Year Treasury Yield

Enclosed are your quarterly reports showing your portfolio holdings and performance. If you have any issues navigating your new client portal or questions on the layout of the reports, please contact us for assistance.

Also enclosed is a copy of BWM’s Privacy Policy. SEC regulations require that we provide a copy of our Form ADV Part 2 upon request, and that we notify clients of any material changes. There have been no material changes to BWM’s Form ADV Part 2. If you wish to receive a copy, please contact us at (248) 556-2900 or deanna@bernard-wealth.com, or visit www.bernard-wealth.com/compliance.

Stocks fell sharply in the first quarter of 2020. The large cap S&P 500 index (**Figure 1**) posted a total return of -19.6% as fears of economic contraction from COVID-19 dominated. Selling in equity markets was broad-based. The Russell 2000 Small Cap index lost 30.6%, and the S&P Mid Cap 400 index dropped 29.7%. International markets also suffered, with emerging markets down 23.6% and developed countries outside the U.S. losing 22.8%. The market message was clear: no economy is unaffected by the coronavirus.

As the coronavirus spread through Europe and the U.S., people began to cancel travel plans. Many businesses sharply restricted travel. This was only the beginning of the dramatic reduction of economic activity. As of this writing, more than 80% of the U.S. population is under some form of shelter in place order. This necessitated, at least temporarily, the closing of many “non-essential” businesses. Unemployment has risen by historic increments. In the past two weeks, new claims set a record at 3.3 million, and then doubled on April 2nd to more than 6.6 million. Surveys of economic activity have almost uniformly fallen. First and second quarter gross domestic product (GDP) are expected to decline by record amounts.

Financial markets reacted as the news worsened with indiscriminate selling of both stocks and bonds, as investors sought to cut risk and raise cash. U.S. bond yields were pushed to record lows (**Figure 2**) as Treasuries benefitted from the flight to safety. This selling resulted in the fastest 30% market decline in history, ending the historic eleven year bull run. In addition, while energy demand was plummeting, Russia and Saudi Arabia increased production in an attempt to take market share and force out weaker energy companies. This was a bit like throwing fuel on an already fierce fire and added to the panic selling. Oil producers are now under pressure to cover production costs while still making required debt payments.

The Federal Reserve swiftly put in place measures to ensure that markets functioned properly, providing liquidity to banks and other market participants. This included two rate cuts that brought the overnight lending rate back down to 0% – 0.25%. They also instituted programs to support money market funds, lend to bond dealers and assist with the issuance of short-term commercial paper. In addition, the Fed began a steady program of treasury, mortgage-backed and corporate bond buying, in order to keep rates low and provide liquidity to sellers. These actions, taken much earlier than during the 2008-09 financial crisis, have helped restore order to markets. Both municipal and investment grade corporate bond prices have been gradually improving.

The Federal government also acted, passing the 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act, a \$2 trillion stimulus and support measure. CARES provides economic support to businesses, employees and individuals. This includes direct loans to hard-hit industries such as airlines, immediate tax rebates to individuals, expanded unemployment benefits, forgivable small business loans and relaxation of income tax rules and deadlines. It also requires that health insurance plans cover the full cost of COVID-19 testing and provides grants to facilitate that testing. The passage of the act provided confidence to markets, resulting in three days of gains during which the Dow Jones Industrials rose 20%, technically the fastest bull market in history.



Fig. 3 – Volatility Index



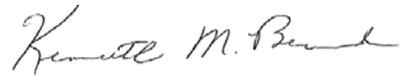
Fig. 4 – Utilities Index

The coronavirus epidemic has made forecasting even more difficult than under normal circumstances. All eyes are on case counts, looking for signs that the rate of infection might be plateauing, and eventually slowing. China and South Korea have apparently been able to contain their outbreaks, but other large countries, including the U.S. and much of Europe, have struggled. In the near term, it seems likely that unemployment will rise further, and corporate earnings will decrease materially. The U.S. and much of the rest of the world may enter recession, and the decline in economic activity may exceed that of the Great Recession of 2008-09. Diversified portfolios holding quality companies with strong balance sheets and reasonable debt burdens are likely to weather this storm, and the investing environment may continue to favor the consumer staples sector. Utilities, which have declined almost as much as the broader market (**Figure 4**), may recover more quickly, supported by their steady cash flows and regular dividends.

Stock investing has always required a certain amount of optimism. In good times this is easier, but investors still must believe that the economy will grow, businesses will innovate, and shareholders will participate in dividends and stock advances. In times of recession or worse, that faith is much more difficult to muster. Successful investors must somehow hold and add to positions in the belief that the environment will improve, and asset prices recover. The current crisis, arguably the worst since World War II, will certainly test investor optimism in the coming weeks and months. Where today can we look for hope? The U.S. economy has a very good track record of recovery. This is supported today by the unprecedented responses from the Federal Reserve and federal government. We also note that the market has a tendency to look ahead, and thus stock prices may recover before the virus situation seems to improve.

We hope that you and your families are well and looking forward to better spring weather. We look forward to speaking with you soon and encourage you to contact us anytime with your questions and concerns.

Best regards,

A handwritten signature in black ink that reads "Kenneth M. Bernard". The signature is written in a cursive style with a large initial 'K' and a long horizontal stroke at the end.

Kenneth M. Bernard, CFA