On Tuesday March 24th U.S. Equity markets, as measured by the S&P 500, experienced a strong upward move of 9.34% primarily on the belief that a resolution between the U.S. Senate and U.S. House of Representatives for funding of a spending package will soon be reached and that the package will be successful in battling the negative economic consequences the U.S. faces due to the Covid-19 virus.

While this is heartening, we want to put this year in perspective. Following yesterday's significant upward move the year-to-date returns of U.S. Large Cap stocks, Mid-Cap stocks and Small Cap stocks are -24.28%, -34.66% and -34.19%, respectively. Year-to-date, the markets have been driven by the uncertain, and to an extent, unknowable consequences of the Covid-19 virus on both a personal and economic level.

We have been very closely monitoring the technical support levels for the market with a level of 2,280 for the S&P 500 being critical. On Monday, the market fell below that level during the course of the day but managed to close above that level. Certainly a positive. With Tuesday's Stock Market recovery the S&P 500 stands at 2,447 or 7.3% above the support level we are monitoring.

This year has been marked by a dramatic shift in outlook. Our expectation was that, absent an exogenous event, the U.S. would not endure a recession in 2020. The definition of "exogenous", which I provide here for my benefit and to serve to remind me, is "relating to or developing from external factors". Alternatively, exogenous is defined as "growing or originating from the outside" or sadly and most accurately in these circumstances as "caused by an agent or organism outside the body".

When we exit this tunnel is not clear. Past experience with SARs and the Swine Flu serve as prior lessons. However, as attributed to Winston Churchill, "History does not repeat itself but it does rhyme". There is no precise precedent to what we are currently experiencing that we are aware of.

While these events unfolded, we have not sat idle. In February we made several moves intended to reduce the level of risk in our clients' portfolios. To the extent we were not restricted by tax consequences or client direction, and in our judgment believed it appropriate for the client, we reduced our Emerging Market stock holdings; cut International Developed economy stocks; exited our High Yield Bond positions; and realigned Small Cap stocks to reduce exposure to the Financial Sector.

Where appropriate, we have also reduced our Large Cap Value Stocks, thereby reducing the percent of stocks owned that are vulnerable to continuing negative effects from low interest rates (Financials) and energy prices. It also potentially helps avoid value traps – buying stocks in companies that have been hit but whose future earnings are not necessarily going to rebound quickly. We reallocated those funds to a high quality Large Cap Stock Fund that focuses on companies with an historical track record of increasing their dividends. The fund we are using is considered to be a "quality" fund, meaning higher than average returns on equity and balance sheet strength than their peers.

Where appropriate we have also increased our clients' cash positions and their holdings of U.S. Treasuries as well. Each of these actions were a critical part of a capital preservation strategy.

There are four dynamics we are watching: action by the Federal Reserve, fiscal support from the Senate and House, the duration and severity of this crisis, and the type of recovery which will follow.

The response by the Federal Reserve has been very significant in scale. It has reduced interest rates; injected liquidity into the financial system; committed itself to expanding its balance sheet; begun to purchase assets directly from banks and others to further support the market; and is now authorized to make direct purchases of Exchange Traded Funds, or ETFS. The Fed has pledged its unlimited support.

Fiscal relief is in the making, with a vote expected today. The Senate and House are working on a stimulus plan that will authorize significant spending, of as much as two trillion dollars, as needed.

The actions taken will make things significantly better than they otherwise would have been. The goals are to ease the burden, and keep the infrastructure – financial, corporate, municipal, small business – intact until the virus subsides.

Federal Reserve action and a deal from the Legislative Branch does not mean the crisis is over. Covid-19 will continue for an indeterminable period. Reports that cases in China and South Korea are peaking are good news. Manufacturing activity is resuming in these countries.

The challenge will be to determine when it is safe to get back into the pool. We will continue to monitor conditions including earnings expectations, valuation levels, market technical measures, leading economic indicators, and prices of sensitive commodities.

There will likely not be a single sign in the sky that marks the turning point. Our actions will quite possibly be gradual, measured and the result of considerable thought and contemplation.

Thank you and stay healthy.

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