

CORE Comments

ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

March 11, 2020

On the Right Side

From phone calls and emails I have received from clients in the last week, it seems useful to write another letter. My views on all this change day to day as the things develop. In my recent letter, I characterized coronavirus as a 'black swan' event; it certainly is. Then, beginning last Friday, we have new unexpected event, namely the refusal by Russia to agree to further cuts in oil production as proposed by Saudi Arabia, the *de facto* leader of OPEC. The Saudis sought an agreement to cut oil production further as demand for oil fell with the general weakening of global economies, weakening that has only intensified with the coronavirus. In the side bar, see a bit about how the Saudi/Russia matter causes problems in America.

There has been no good news about coronavirus, except that the Chinese seem to have contained it.

Italy tries a similar approach.

Other countries try other things. We shall see what Mr. Trump's stopping flights from Europe to America accomplishes.

When oil prices fell sharply in the past, it was said that America realized a benefit in that we paid a bit less at the gas pump.

But as shale oil production has increased to make America (for awhile recently) the biggest oil producing country in the world, we now face many lost jobs in the highly leveraged shale oil sector and reduced spending on plant and equipment. America derives essentially no benefit from the Saudi price war.

Some of the uncertainties when I wrote a couple of weeks ago have been resolved: we know now that coronavirus extends itself very widely and that in more than one hundred countries it manifests itself. The ability for scientists to identify the 'Patient Zero' in a place in which there are suddenly many infected people is clearly quite limited. We realize that the numbers of infected people is probably widely underestimated or undercounted. We see this in America now, where we do not have the means to test many people. We saw this a couple of weeks ago in Iran when reported numbers of deaths from coronavirus was far, far higher than expected given the numbers reported to be infected.

Today the World Health Organization declared this to be a pandemic, not just an epidemic. Today, Angela Merkel, Germany's Chancellor, told us that two thirds of Germans are likely to become infected by coronavirus. China imposed extreme restrictions on travel and quarantined scores of millions in Wuhan and neighboring cities in Hubei to slow the transmission of the infection. Then, in the space of little more than a week, Italy became a 'hot spot.' In the first instance, it closed off cities near Milan and in the Veneto. More recently, it has essentially put the entire country in quarantine. In Westchester County, just north of New York City, the National Guard has been brought in to a community in which a number of people in a temple fell victim to the infection. Schools, colleges, universities are closing. A Core client with one child at Columbia and another at Bard College, a bit up the Hudson, told me that Columbia had closed and sent its students home (as have Harvard and others) whereas Bard 'strongly recommended' that its students stay on campus during the spring break and not go home!

By

Jack Mayberry

Each reader of this letter will have her or his reports on this same subject. As it relates to my investment work for you, all this means is that there is an unfold-

The chart below shows the price action in US Treasury bonds maturing in twenty years or more. This is Core's largest investment.

Treasury prices have risen; Treasury prices always rise in a recession. Despite short-term price movements, there is no reason to sell these.

ing disaster spreading around the world, the seriousness of which is still unknown. The financial markets reflect the seriousness and the uncertainty. The uncertainty by the quite exceptional price volatility we see in many markets, especially in stock markets. There is a statistical measure of this called the VIX, meaning stock price volatility index. As of this week, the VIX has exceeded every previous reading except for those in October and November 2008 immediately after the collapse of Lehman Brothers, the epicenter of that financial catastrophe.

The seriousness of the coronavirus pandemic is still unknown, but many serious things are known: Supply chains for global manufacturing have been upset. Closing of schools, unwillingness to board planes and travel, closing of factories, sending workers out of offices to have them work from home, and restrictions on travel are serious impediments to economic activity and to life. The odds that we will have a recession are much higher than they were only a month ago. And, given recent sharp and deep declines in the stock market, it seems clear to me

that we are in early stages of a bear market. Bear markets are infrequent: the last one ended in March 2009. But they are not brief and they do damage. We can expect a year's worth, if not more, of some nasty stock market action. This nasty action can quite readily bring prices down by twenty to forty percent from their highs in February. In the financial crisis and recession from October 2007 to March 2009, the S&P 500 fell by more than 55 percent. This one may not be nearly so bad, but it is unlikely to be much fun for stock market investors.



Happily, Core's investments have been on the right side of things. In the last month, the S&P 500 index has fallen by more than 18 percent, while our long-term US Treasuries are up by more than 8 percent. For the year to date, Core's portfolios have advanced by more than 10 percent. (There are, of course, variations in individual accounts for lots of reasons.) Because bear markets persist and because, in bear markets, Treasury bond prices and gold prices rise, I am in no hurry to look about for what to buy in the stock market. For now, our 'safe haven' investments in Treasuries, gold and cash preserve our capital and cause it to grow.

As I wrote at the beginning of this note, I have been hearing from clients as things have become exciting in financial markets. Please do not hesitate to call or to email me. There's lots to talk about.

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