ROPES WEALTH ADVISORS

BEAR MARKET TURNS TO BULL

As of the close on Wednesday April 8, 2020, the S&P 500 Index has traded more than 20% higher than the bear market low notched on March 23rd, just a short 10 trading days ago. As many investors remember, the index set an all-time record high on February 19th, just six weeks ago, but to some it may seem like an eternity. Things have been changing fast in 2020.

While some data points such as record unemployment claims continue to shock economists and investors alike, health related and monetary policy action have helped pushed stocks up over the last two weeks. We are seeing glimmers of hope that social distancing is working with a potential flattening of the COVID-19 curve, a massive $2.2 trillion stimulus/relief fiscal package with the likelihood of more in the nearer term, and an over 25% rally in the oil market based on the potential for a production cut agreement between the globe's major producers that could total 10 million barrels per day or more.

Also adding support has been almost weekly doses of Federal Reserve interventions. Just today, the Fed announced up to $2.3 trillion in loans to assist households and employers of all sizes and bolster the ability of state and local governments to deliver critical services during the coronavirus pandemic.

Specifically, its Main Street Lending Program will provide up to $600 billion in 4-year loans to companies hiring up to 10,000 workers or with revenues of less than $2.5 billion. These loans, to be disbursed through eligible banks, would allow for interest deferred payments for a year and would be at least $1 million in size. Under the program, banks will retain a 5% share of the loan and sell the remaining 95% to a facility to be set up by the Fed. Borrowers must follow compensation, stock repurchase, and dividend restrictions that apply to direct loan programs under the CARES Act.

In addition to the Main Street Lending Program, the Fed has also said it would backstop loans generated under the Paycheck Protection Program. The Fed said Thursday that it would take the loans as collateral at face value.

"The Fed's role is to provide as much relief and stability as we can during this period of constrained economic activity, and our actions today will help ensure that the eventual recovery is as vigorous as possible," Fed Chairman Jerome Powell said in a statement.

Notably, the Fed also announced that it will step in to help local and state governments across the country grappling with funding pressures.

Shock and awe are the effects the Fed hopes to create by these interventions, and markets are responding in kind, adding to the steady gains notched over the last week. But markets and the economy are not out of the woods yet. A study of historical statistics related to big rallies off panic equity lows suggests there is a high probability that at some point a meaningful downside test will occur. So the question is what might trigger a big downside move from current levels?

We believe delayed and clumsy implementation of these and other programs meant to support the economy are a critical risk, as consumers and small businesses need cash now. The Fed's moves today were clearly designed to address that risk, but it is up to overwhelmed banks and state governments to process applications for loans and unemployment benefits as the boots on the ground. Another clear risk is the Q1 earnings season upon us, as investors will soon have to confront the stark realities that companies are facing. Finally, there is the risk of the virus itself, and many outstanding questions around how we open our economy back up without causing a resurgence of this virus. While we have seen hopeful signs the infection curve is flattening and the death toll is peaking in hot spot areas around the country, we still have a long road ahead of us in tackling this insidious infection and charting a return to normalcy.

For now, though, let us appreciate the stabilization we have seen in market conditions, but know we remain ever vigilant and prepared for more volatility to come as we steward your portfolio through these turbulent times.

If you would like to speak personally with a member of our team at any time, please click here.

MUNICIPAL BOND MARKET WINDOW OF OPPORTUNITY

Municipal bonds have come under heavy selling pressure as governments grapple with the coronavirus, and that has driven prices down to levels that we think are too cheap to ignore. Click here to read more.

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