

# **As Samuel L. Jackson said in Jurassic Park: “Hold onto your Butts”**

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*Last Friday, we were about to conclude this “coronavirus correction”. Last week started lower, remained volatile, but we closed above where we had started. However, this Monday and Wednesday’s sell-off pushed stocks into bear market territory as investors and analysts struggled to evaluate the economic impact of the coronavirus outbreak and a new oil war. What happened?*

*Vladimir Putin and our government’s response to this coronavirus are the culprits. Last Friday, OPEC and the Saudis reached an agreement on production cuts to stabilize oil prices. On Saturday, Putin decided not to go along with OPEC. OPEC then retaliated launching an all-out war against Russia by increasing production and discounting prices which caused the price of oil to crater Sunday night. The oil drop, in tandem with a poor response to the coronavirus scare has terrified the equity markets. We have tens of thousands employed by the oil sector all over the country. If oil remains below \$45 barrel, on a prolonged cycle, it will affect our banks and the credit markets. Oil prices have been suppressed since the coronavirus outbreak which is now stoking fears of a global slowdown.*

*In response to the oil fissure between OPEC and Russia, the DOW shed 2013 points on Monday - its largest point drop in history. This 7.8% decline was the greatest decline since the worst week of the recession in October of 2008. President Trump gave a speech last night which was supposed to calm an anxious public and the world markets. The speech failed. After his 11-minute speech was finished, DOW futures fell by over 1000 points or about 4.5%! That is an unprecedented drop in that index in 30 minutes.*

- *In his address last night, President Trump announced that travel coming from Europe will be suspended or curtailed for 30 days. He later tweeted that this did not include imports. The UK was exempt for some unknown reason.*
- *Trump also said his administration will provide financial relief for workers who are ill, caring for others due to the virus or are quarantined. There was little mention of working toward a vaccine or a cure or the need to administer extensive testing for those who may be infected. Had this been done, it would have created greater confidence to a concerned public.*
- *It is not at all clear how travel restrictions will impact the spread of the virus. Further, how is restricting travel going to deal with a problem that is already here. Putting up a wall with Europe will cause our European allies to retaliate by declaring that Americans cannot travel there. I suspect we will see a travel ban going to Europe in the next week. What will this do to our airline and cruise industries which have been decimated over the past two weeks?*
- *Trump’s announcement was not enough for investors who were looking for a more robust fiscal response to curb slower economic growth and who were looking for a response to deal with the oil crisis caused by Russia which created the freefall Monday and Wednesday.*
- *Our angst is that as the coronavirus spreads - what will happen to consumer spending? Consumers sitting at home and not spending because they fear catching the virus is the*

*ultimate negative outcome. If Americans can't go to sporting events or are afraid to travel, what does that do to American business. The U.S. consumer has been driving force behind this recovery during an 11-year expansion. What happens if the consumer stops spending?*

- *Sadly, a recession, which was not even on the horizon one week ago, is now a real probability... Macroeconomic factors may deteriorate from here.*

*For two weeks, the market has been trading on the unknown, speculation, fear and on headlines. When the market trades on the unknown, the byproduct is turmoil. The markets need certainty and leadership, and neither is being provided presently... Also, on Wednesday evening, the NBA announced it is suspending its season indefinitely and we heard yesterday that the NCAA tournament will be played without spectators. We have no idea how that is going to work or if sponsors will even agree to that... Given the fear that sporting events have been or will be cancelled or postponed in the United States, and around the world, this will lead to greater instability ahead. Tom Hanks and his wife Rita Wilson also announced that they have been infected by the coronavirus also.*

*Having said all of this, the market is oversold. Some good news would go a long way toward improving things; however, we did not get any good news or reassurance on Wednesday night. This is what we want to see happen to get some normalcy back to the market:*

- *The government needs to provide zero-interest loans to small businesses that will struggle through this downturn. We need to subsidize companies to provide their employees paid sick leave because it's impossible to quarantine yourself if you're living paycheck to paycheck.*
- *The White House needs to convey that we will have to take a short-term hit if we're going to contain the virus: self-quarantine, work from home, stay away from crowds. These things will slow down the pace of the infection and it will provide health care workers the ability to assess what is going on. We need more test kits to determine how many are getting infected.*
- *The White House needs to push for a vaccine or treatment and we need better information. [Jim Cramer said that Trump needs to convene a "Manhattan Project" and create incentives to companies that make progress on a solution. The sooner a vaccine is here, the better.](#)*
- *The Federal government needs to back local and state community-based health systems with the resources necessary to deal with this problem. This is a key role of our federal government.*
- *Trump's proposed tax incentives are on top of an \$8.3 billion spending package that he signed last Friday aimed at supporting research for vaccines and helping support states battling the outbreak.*

*On Monday, we at PFP sold all our ETFs and mutual funds in financials and we sold all consumer discretionary positions as well. We are watching the news like a hawk this week. We will move to a more defensive set of positions including utilities, consumer staples and durables, healthcare, commodities as well as grocery, wholesale and dollar stores. We will keep you apprised of our plans and we will be calling clients and writing newsletters weekly. In the meantime, expect volatility until headlines improve. **In the interim, please feel free to call us at any time with your questions. We are here for you. We will be having a special seminar to discuss all these matters in late March or early April.***

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