Tom McIntyre's
Weekly Commentary & Outlook

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This is Tom McIntyre with a client update as of Monday, March 16, 2020.

This morning's update will be about the state of the world and by extension the financial markets.

As everyone is aware, the world has changed quickly over the past few weeks due to the COVID-19 pandemic and last week's stunning oil price war announced by Saudi Arabia versus, ostensibly, Russia, obviously having global implications.

As to the virus panic, the situation has broken the confidence of the markets and has caused dislocations in many industries. Furthermore, the last 30 years (prior to the Trump administration) saw increasing industries locating various parts of their supply chains there.

This, along with China's economic growth rate, created an outsized dependence on an economy still run by a Communist dictatorship. That was the basis for the so-called trade wars that have been an issue for the past few years. This dangerous trend was in the early stages of changing when this tragic event happened. Now the global economy must get through this transition, which it will. Look no further than China itself which now is returning to what passes for normal. Even South Korea which blundered out of the gate fighting this virus has now beaten it back. The virus never became an issue in Taiwan, Singapore or even Hong Kong so the fight can be won. However, other countries such as Italy and the rest of Europe is struggling. Not the least reason are there even closer ties to China (Italy especially) but also their absurd ability to move freely from one country to another once in the EU. That has now changed but the damage is done. Ultimately this will be another event like Brexit was to herald the failed project called the European Union. Today's issue though is to beat back the spread of the disease but doing so will come at an unknown cost. Markets hate this uncertainty.

As to the virus itself, having read countless analyses of its origin and future paths, it seems that the consensus is that it will be bad, but context is needed. To date, only some 65 people have died in the US. Almost all were elderly and suffering from underlying conditions. Some of that number would have perished in any event.

Further context is that this virus is from a family of viruses from China that the scientific community is familiar with. Just ten years ago the Avian Flu killed 14,000 Americans and yet today very few people even remember it.

None of this is to minimize the situation. Lives and businesses are being disrupted and the duration of this is unknown. The only way to mitigate this is to practice social distancing. In other words, stop doing what you would *normally do. This is good advice until indicated differently, but as you can imagine this is terrible news for the economy and investor confidence.*

As such, we have gone from all-time highs in mid-February to a full-fledged bear market in a few weeks. As a result, the US Federal Reserve Board has moved interest rates to basically zero and announced other moves to help liquidity. These moves will eventually prove beneficial but not today.

For our part, we are saddened to see stock prices jumping around the way they have but are powerless to do much about it.

*Some industries may take longer to recover, such as the airlines and anything travel related. That is why we sold our shares of **Boeing** last week as they need a vibrant airline industry. That is their customer base. Also, as the carnage works its way through, having some cash to pick a bargain or two will be convenient. Someday a return to **Boeing** cannot be ruled out.*

*Our portfolios include many names which are at the forefront of the fight against this disease, **Glaxo** leads the world in vaccines. **Johnson & Johnson** is also leading the charge. Even **Novartis** owns 10% of Roche holdings, which is the Swiss firm which last Friday was being lauded for creating the test kits needed for widespread use.*

*Many of our other names are defensive such as the utility names of **Duke, Dominion, National Fuel Gas,** and **Enbridge** just to mention a few.*

*Yes, their prices are disappointing, but their businesses will continue during this time. Even our shares of **Walmart** are the best retailer to be in and they are part of the testing process which is just starting.*

*All these names are financially strong as well as **Microsoft, Johnson & Johnson,** and **Novartis** for instance. These three companies are in the esteem list of the very few global triple-A credits left in the world. They are not going anywhere.*

As for the oil fiasco, no producer in the world is making any money at these prices. Russia and Saudi Arabia will fight over market share and eat into their reserves. This can't go on forever and it would be stupid to allow it to continue. Here at home, the US is the largest producer but that will change quickly. There simply is no economic incentive to explore and develop oil fields. Our production number will collapse, and quickly. This will also rebalance the global markets but not while this COVID-19 issue remains paramount.

To sum it all up, Markets are dealing with two black swan events when either one would have sent markets down. We continue to watch the news, our holdings, and markets. Some portfolio moves can be expected, not due to panic but to position for a rebound which will happen. I've been through many crashes. They have been for varying reasons but eventually, a bottom was reached, and a new bull market is launched.

Finally, I've enclosed an article on the history of the markets during recent times of turbulence. It gives some hard data to give confidence for the future. https://www.cnbc.com/2020/02/24/past-disease-outbreaks-show-investors-shoud-ignore-the-noise-of-coronavirus.html?__source=sharebar|email&par=sharebar

Thanks for reading.