A Note of Optimism

We wanted to share a note of optimism during what has been a significant national moment, and a significant stock market decline. Anyone who has invested for more than a few years has experienced drawdowns in their stock portfolio; it is a natural part of investing. What has been disconcerting for all of us is the swiftness of the present market decline, combined of course with a growing sense of worry over the coronavirus, as it spreads in the US.

We will save the latest case counts and related developments for the next Quick Comment that we send you. But what we are seeing, in real time, is that the public is taking the infection threat with increasing seriousness. The word is getting out; people are mindful of hand and face hygiene, of personal distancing, and as the shelves at any grocery store will confirm, they are stocking up.

Businesses are stepping up as well. Companies are encouraging remote work, are splitting staffs across locations, and in many cases are providing expanded benefits for persons who are sick and need to stay home, away from others. Many companies have made the difficult decision to restrict employee travel, which could hurt business in the short term. Nationwide, large conventions and gatherings have been cancelled. Disney will be closing its parks in California and Florida for a time. All major professional sports seasons are on some degree of suspension. March Madness is cancelled, and the Masters is indefinitely postponed. These are historic, almost unimaginable, steps we have taken.

Government is getting better. At the federal level, we made smart, early decisions to restrict travel from China and Iran, two early virus hotspots. It was a good call, and it certainly slowed the virus' progress into the US. But we've been hampered by the scarcity of test kits, and that situation is only slowly improving. Better have been states and localities, dealing with the front lines of the breakout. In the main, they have been fully engaged with planning for both the current and the potential situations the outbreak may present. Recall, the biggest imperative is to slow the progress of the coronavirus, so that critical care systems in our country are not overwhelmed by a surge of the sick all at one time. Drs. Anthony Fauci and Scott Gottlieb (the former FDA Commissioner) have been commendable in their counsel to the nation—steady, measured, and serious.

The current and pending disruptions to our economy will almost inevitably drive a downturn. The decline in our stock market has anticipated the weaker economy; that is the continuing moment we find ourselves in now. Our current expectation is that the recession will be comparatively mild.

The downturn has been triggered by a classic "black swan" event which delivered a short but sharp shock to the global economy. In the US, we are entering this moment from a strong footing. We will give something back in the form of job losses and lower commercial activity, but we should recover vigorously as we move beyond the coronavirus outbreak. Corporate profits will fall for a time, before resuming higher. As for the source of all this disruption, the coronavirus, by next year we should have vaccines and therapeutics available to address the disease, as well as gains from herd immunity.

We continue to plan our path forward for our clients. The market's selloff has presented multiple investment opportunities which we are continuing to investigate. Moments like the present are thankfully rare, but it is not often that great, blue-chip franchises go on sale. We expect to be picking up some great companies for our investment portfolios in the coming days and weeks, for your benefit.

Respectfully submitted,

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Partner and Chief Investment Officer