COVID-19 & Market Volatility

FOUNDRY PARTNERS

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Without doubt, the previous several weeks have witnessed market volatility of epic proportions only rivaled in recent memory by either the Crash of 1987 or the September-October period of 2008. Global markets are experiencing massive swings as investors adjust to the increasing likelihood of a world-wide recession due to government induced quarantines and social distancing related to the Coronavirus, or COVID-19.

Not only has the virus created unusual medical dilemmas for the countries involved, but radical attempts to suppress the spread of the pathogen have forced investors to rethink global growth prospects as populations go into quarantine and commerce worldwide is halted in many sectors and industries. On a daily basis, governments and businesses announce the temporary interruption of many activities essential to our daily routines.

The previous weeks prior to the virus outbreak, US stock markets were making new highs on a daily basis as investors factored in moderate growth, low inflation, low interest rates, and an upbeat optimism about the future. Certainly, complacency wrapped investors. This condition also contributed to the unravelling of markets along with an "Oil War " between Saudi Arabia and Russia, and the dramatic fall in interest rates.

Our portfolio managers monitor these events constantly with the intention of taking advantage of the opportunities that this situation may offer. We are working under several assumptions:

- The spread of the Coronavirus will eventually subside, already China and South Korea are reporting fewer cases
- The spread internationally and in the US is in the early stages, so we should expect volatility around this epidemic to remain for several weeks, at least
- The monetary and fiscal response of governments and central banks worldwide will be substantial and serious to offset the negative GDP impacts of the virus lockdowns
- Quite possibly, a worldwide recession of one to two quarters will interrupt the moderate-growth path formerly expected for 2020 by strategists
- A snap back period of growth, similar to that experienced after a natural disaster, will allow worldwide GDP to advance at an above average pace for a period of time
- Stock markets worldwide have reacted to the current negative impacts of the virus with markets falling into bear-market territory for the first time since the Great Financial Crisis bear market - It is reasonable to expect that once there is clarity on the decline of the spread of the virus and the extent of the ultimate commercial impacts, stock markets will rally in anticipation of renewed growth

As long-term investors, we view these events with the lens of opportunity. In the midst of fear, bear markets allow for acquisition of assets at sale prices. We also know that market volatility often feeds on itself where excessive selling often discounts a company's long-term prospects to an overly pessimistic level. We are seeing this across many industries. On the other side will be investors marking up tomorrow's prospects. We are not there yet, but history tells us that this day will arrive.

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