COVID-19 & FINANCIAL MARKETS
Question & Answer

March 24, 2020

Here's our latest update on the impact COVID-19 is having on financial markets and on your investments. We're sharing actual questions we received from clients to date, restated in our own words. It's possible that you have the same questions yourself. Our answers are based upon the information we have at this moment, mindful that events are changing rapidly.

Q: SHOULD WE SELL SHARES TO RAISE ADDITIONAL CASH TODAY, THUS HAVING IT AVAILABLE LATER FOR PURCHASING BARGAIN STOCKS WHEN THE MARKET IS LOWER?

A: No. While we have probably not yet reached the market bottom, attempting to time such a volatile market and having the resolve required to buy at the worst moment represents the highest level of difficulty in our opinion, and is to be avoided. Cash from the sidelines (existing reserves) can be put to work soon, though it's possibly too early today.

Q: WHAT SHOULD I DO WITH MY 401K RETIREMENT PLAN CONTRIBUTIONS AT WORK? STOP THEM, OR CHANGE MY INVESTMENT ELECTIONS TO CASH FOR THE MOMENT?

A: You should continue the voluntary contributions you are making. This allows you to buy investments at more attractive valuations than earlier in the year, an advantage for the long term. A 401k account is a long-term account, and you will look back and be happy you continued to make additions in 2020.

Q: IF INTEREST RATES HAVE DROPPED NEAR HISTORICAL LOWS (US TREASURY TEN-YEAR NOTE YIELDS 0.75%) AND THE FEDERAL RESERVE HAS TARGETED A ZERO PERCENT POLICY RATE, WHY ARE MY BOND FUNDS DOWN IN PRICE AND NOT UP (BOND VALUES CLIMB WHEN INTEREST RATES DECLINE)? ADDITIONALLY, WHY AREN'T MORTGAGE RATES AT HISTORICAL LOWS ANYMORE (CURRENTLY ABOVE 4%)?

A: The same phenomenon is affecting both mortgage rates and the values of bonds and bond funds. Sellers have flooded trading markets and exchanges with sell orders, for stocks and bonds both. It has impacted all types of bond maturities and quality levels, although to different degrees. As in any market, when supply exceeds current demand, prices drop. Presently financial markets are experiencing a liquidity issue, not enough buyers to meet that selling demand. The US Government has announced unlimited buying of Treasury and Mortgage Securities to bring buying and selling back into balance. This commitment should have a stabilizing effect, as it did during the Great Financial Crisis of 2008/2009.

Q: WHAT RISKS COULD THE FEDERAL RESERVE AND OTHER POLICY MAKERS BE CREATING BY FREEING BANKS FROM RESERVE REQUIREMENTS AGAINST CUSTOMER BANK DEPOSITS? WILL THIS CREATE LENDING AND INFLATION PROBLEMS LATER ?

A: The US Government is pulling out all of the stops to prevent systematic financial stress globally and is allowing banks to borrow cash from the Fed for 90 days. Collateral for these loans can be nearly any loan or security the bank owns. Simultaneously it is allowing banks as much breathing room to be flexible in dealing with their own borrowers and creditors. One ancillary goal is to actually boost inflation in order to halt "deflation" (its opposite) from taking hold. Fed Governors feel they can later deal with inflation easily, but a deflationary spiral is something nearly impossible to arrest. Customer deposits at banks will remain protected by different programs such as FDIC deposit insurance. The capital position of banks are far stronger today than at the onset of the 2008/2009 Great Recession.

Q: WHAT ARE THE INVESTMENT OPPORTUNITIES? WHAT INDUSTRIES LOOK ATTRACTIVE COMING OUT OF THIS CRISIS?

A: One thing we've learned over four decades of investing is that companies changing the way business is done and solving problems become successful and even dominant. New technology applied to drilling brought the shale boom to oil and gas a decade ago. Online search has made targeted advertising possible and created technology giants. The storage "cloud" removed a great deal of hardware infrastructure from offices, lowering costs. These are just a couple of examples. How has this very crisis changed the way you operate? Likely it has validated that e-commerce and video conferencing is a user-friendly solution keeping companies and households operating remotely. Secular trends already established are therefore accelerating due to this pandemic we are experiencing today, and our economy might be forever changed as a result by leaps in efficiency. Ashfield's Investment Team maintains our conviction that owning adaptable and well managed companies is the answer, and previous global and financial crises have proven to be opportunistic moments for investment.

Thank you for your continued patience and strength under these circumstances. Please continue letting us know what is on your mind and sharing your questions and concerns. We are fully functional while operating under California's shelter in place order thanks to business continuity plans and capabilities previously put in place. We are exercising our long experience in weathering earlier crises and disciplined investment approach to get us through this one together. We have optimism already by noting that other nations have already seen new COVID-19 case numbers peak. Confidence will return when this occurs in the US. Please do not hesitate to call or email.

Sincerely,

ASHFIELD CAPITAL PARTNERS