This too shall pass. It might pass like a Kidney Stone, but it will pass.

As many of you know the COVID-19 disease has caused turbulence in the capital markets and has decreased the level of projected global economic growth. If you have been market participants long enough, you know that heightened uncertainty increases volatility in the capital markets. The events which are unfolding have caused stocks, measured by the S&P500, to have an intra-year decline of approximately -13% and has pushed the 10-Year Treasury yield below 1%, aided in part by an emergency -50 basis-point rate cut by the Federal Reserve. You read that right: investing in the safety of the 10-year Treasury bond will now earn you near 1% per year for the next 10 years if held to maturity. Keep in mind core inflation has been running around 2% per year over the past 20-years.

As Wealth Managers, not Infectious Disease Specialists, we know the pendulum of investment sentiment can quickly swing from optimism to pessimism, and it is our duty to stay consistent, prudent and rational during irrational times. The reactions we are seeing in financial markets, particularly interest rates, have us questioning the underlying rationale. There is no Market Strategist anywhere in the world who has a crystal ball for the future but here is what we do know:

- The average intra-year decline of the S&P500 over the last 40 years has been -14% with 30 of those years ending with positive returns. Market corrections are normal. (Factset)

- The SARS epidemic in 2003 caused a -15% decline in the S&P500 over the course of two months followed by a +26% increase over the following 2 months. (Factset)

- Through the end of February, the US Economy added 183,000 new jobs in the face of the outbreak. (Factset)

- The yield of the 10-year Treasury bond, currently at 1.0%, is below the earnings yield (5.9%) AND the dividend yield (2.1%) of the S&P500. With a higher income and the potential for price appreciation, Stocks are a better value than Bonds, particularly over a 10-year time horizon. (Factset)

- China is coming back on line. Starbucks was operating 85% of its stores in China at the end of last week after temporarily closing them due to the onset of the Virus. Highway traffic in China last week was already picking up, with passenger and truck traffic turnover rates up by 96% and 136% from the prior week. (Bloomberg)

To be sure, we expect more reactions as the virus proliferates and the number of newly diagnosed cases are announced. Volatility is here to stay, but our view is that now is not the time to make material changes to a long-term investment allocation. The global economy is resilient and has endured far greater shocks; we feel this too shall pass, even if the road ahead remains bumpy. Adding to our comfort, and hopefully to yours as well, is the fact that our investment process revolves around constructing client portfolios built to withstand events like these.

We are always available to help so please contact us if you have additional questions or concerns.

Sincerely,

The Palladium Team