Bank of New Hampshire
WEALTH MANAGEMENT

Private Banking

*Market Update*
*March 2020*
*Fed Gets Aggressive as Covid-19 Takes Hold*

The Federal Reserve slashed rates by 1.00% last night in response to the economic impact to be felt from business closures in the coming weeks in an effort to halt the spread of the Covid-19 virus. This move brings the Fed Funds rate to 0.25% and signals a strong commitment to ensure market liquidity during this stressful period as it comes only days after a 0.50% reduction. These actions will be helpful in keeping the financial system going so that businesses can access capital as the crisis plays out and will foster recovery once the virus has run its course, but they may not provide an immediate remedy to the situation for investors as the Fed cannot open the doors or bring in the customers at a time when public safety is the foremost concern. In fact, the market response has been to sell off in the wake of the Fed's aggressive actions as investors recognize that the economy is slowing down for a period of time until new cases of the virus begin to dissipate. Uncertainty is the greatest foe of markets and coronavirus presents unknowns that are both medical and economic in nature. The economic impact on GDP and earnings growth will remain difficult to quantify until progress is made from a medical standpoint to limit the spread of the virus. This is the factor that has been driving the steep correction in stocks that we have witnessed over the last few weeks as investors are looking for a coordinated monetary and fiscal response from policymakers. Fiscal stimulus will be an essential ingredient to spur recovery and bring demand back into the economy as the virus is controlled. It is clear at this point that some measure of urgency in this regard is front and center in the minds of global policymakers with it being likely that they take an aggressive stance in the coming weeks similar to what the Fed has done in recent days. This would be a positive step toward recovery that would offer investors some measure of reassurance in the face of a slowing economy.

The market reaction to this point has been consistent with event driven corrections of the past as we have seen the yield curve quickly steepening along with spikes in risk measures like credit spreads and the volatility index (VIX). For long term investors, such events occur infrequently but can be disconcerting nonetheless as markets fall quickly over a short period of time seemingly without relief. Examples of this through the years include the '87 crash, the banking crisis in 1990, the Asian currency situation in 1998 and the weeks following 9/11. During these periods, it is important not to panic and lose sight of long term portfolio objectives while making sure that short term needs can be met. This is illustrated by the attached chart from Crandall & Pierce which shows the trajectory of the S&P 500 over several decades. The worst move that an investor could have made in any of these situations was to make a dramatic change to asset allocation strategy in the depths of the crisis as this would have turned paper losses into reality and left them under invested in stocks for a considerable period of time when the recovery eventually took shape. Recovery can often be as unforeseen as the event itself was to begin with. This is because it usually occurs in the midst of high market volatility and investor trepidation with the catalyst typically being an unexpected policy initiative or economic report that triggers a sharp reversal. It is critical that investors not miss out on the first days and weeks of a recovery as market swings can be significant during these periods with a tremendous opportunity cost for those that overreacted.

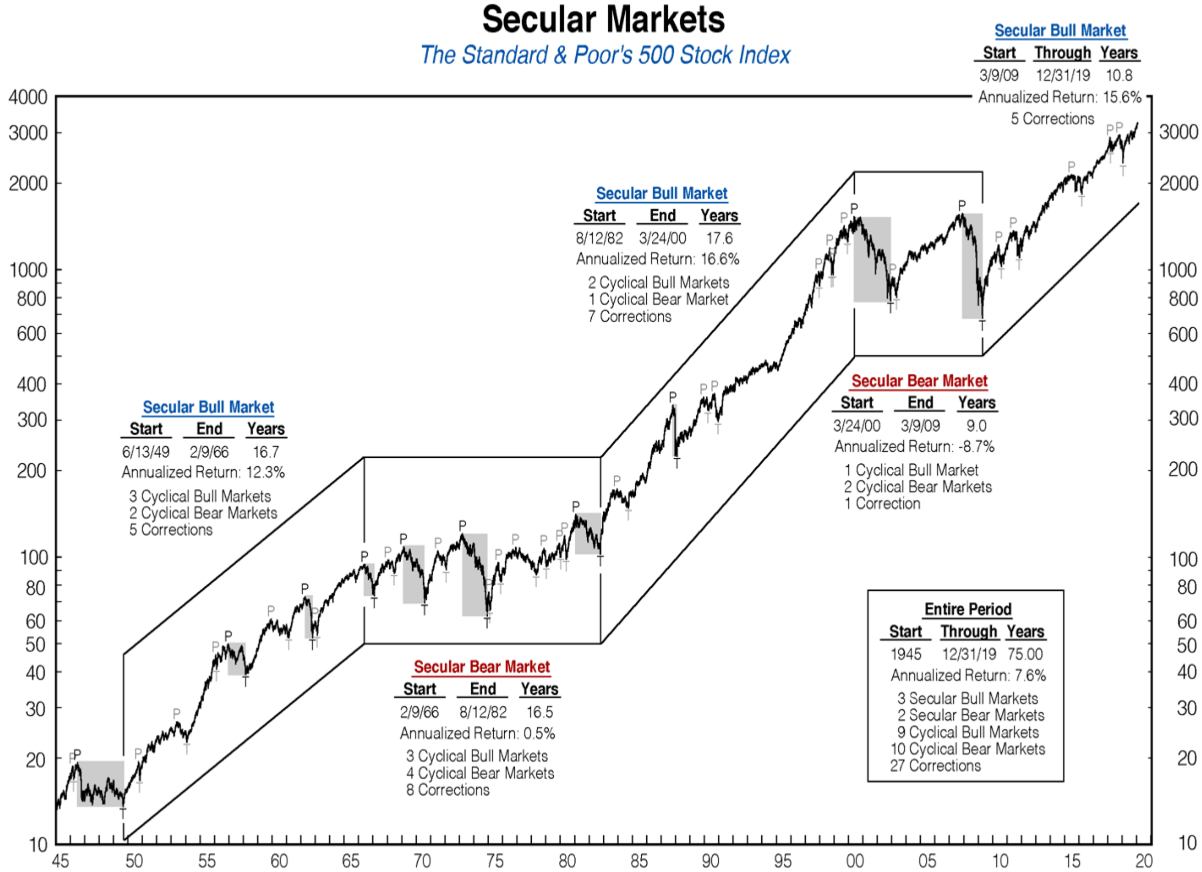
With that said, there are steps to be taken to manage risk effectively during these periods of market stress and to ensure that clients are positioned to take advantage of opportunities coming out on the other side as recovery occurs. From a risk management perspective, we have maintained underweighted positions in more volatile equity classes such as mid cap and international stocks while keeping a minimal amount of small cap exposure in client portfolios. These areas of the market have been harder hit as investors have tended to favor higher quality large caps and the relative defensiveness in health care, consumer staples and utilities as the crisis has evolved. It is also important to note the value that the bond allocation in portfolios has added by providing some insulation on a total return basis to the sell off in equities. While this is a difficult time for investors, there are some reasons to be optimistic about recovery once the virus is controlled as today's environment is very different than what we encountered during the existential threat of the 2007-09 financial crisis. The coronavirus has created a demand problem that can be addressed by the coordination of monetary and fiscal stimulus which will give investors confidence that the economy can get back on track. As this process plays out in the weeks and months ahead, there will gradually be opportunities to buy superb companies at much more reasonable prices for the long term and to rebalance asset allocations to be sure that investors take advantage of the recovery when it presents itself. In the meantime, we are focused on limiting exposure to the sectors and industries that are hardest hit and looking for opportunities to nibble at market leaders that have the financial strength to participate in the recovery that ultimately occurs.

—Charles Mathews, CFA

Bank of New Hampshire
WEALTH MANAGEMENT

# Secular Markets

*The Standard & Poor's 500 Stock Index*




*Secular Markets are indicated by long periods (in excess of 7 years) where the prevailing trend is Bullish or Bearish.*
*Corrections - Minimum 10% decline but less than 20%. • Cyclical Bear Markets - Minimum 20% decline. • Shaded areas represent Cyclical Bear Markets.*
*Sources: Standard & Poor's Corporation; Copyright © 2020 Crandall, Pierce & Company • All rights reserved.*