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MARKET UPDATE – CORONAVIRUS

CRAWFORD INVESTMENT COUNSEL Est. 1980

For the last month, the market has been significantly disrupted by the coronavirus. This is obviously an extreme situation, and I want to keep you informed as our thinking evolves with conditions. Our hope is to provide perspective.

Fortunately, investors do not have to deal with exogenous events like the coronavirus very often. When such events occur it can make one feel helpless. What should we be doing? In circumstances like this, it is important to keep in mind what kind of portfolio one has. In your case, we believe it is well constructed because it has a proper asset allocation and it owns companies that are strong enough to endure the worst of conditions. It is a portfolio that is built to get you through a time like this. It can provide you with liquidity if you need it, and importantly, it is producing income right through this period of stress. The dividend income has not changed as the price of the stocks have declined. Bonds have appreciated in value and provide liquidity. Most important, the chief characteristic of the portfolio is quality. We have always felt that owning high-quality securities is the best way to be prepared for the worst, and that is what you own.

How long will this last? Obviously, no one knows. We only have history as a guide as to how markets typically act in such periods. The stock market generally bottoms when the news seems the worst. Are we there yet? Perhaps. Perhaps not. But the United States is fortunate to have the knowledge of how the coronavirus has spread in other countries like China, Italy, South Korea, etc. In each instance the virus spread at a very rapid pace for the first several weeks and then it began to slow. It is reasonable to expect that we will see a similar pattern and that we are now in the beginning of the very rapid growth phase for the virus. As investors, it is best not to panic in such a period. We believe selling stocks should be avoided and is unnecessary because you have sufficient liquidity to support your needs.

The severity of the coronavirus's eventual impact on the U.S. economy is uncertain. However, severe measures to insure self-distancing is inevitably harmful to demand, so one has to assume that a recession is a possibility. If our assumption that the pattern of coronavirus repeats itself, then we expect that business will resume fairly quickly. In our opinion, if we do have a recession, it will be brief. Structural damage to the economy should be limited. Fortunately, our economy entered this period with both the consumer and business sectors in a strong position. Unemployment is at a record low, consumers have a high savings rate, and financial obligations relative to income are low. When fear subsides and the need for social distancing is reduced, we believe that the economy can snap back rather quickly.

Let's look at the positives. You own a well-diversified portfolio of very high-quality names. That means you do not have too much exposure to any one area, and we believe all of the companies you own have the ability to come through this period in good shape. When the stock market moves +/- 5% on a daily basis, all stocks move together. Investors that are not positioned properly are not afforded the opportunity to distinguish one stock from another when seeking liquidity. This presents opportunities for disciplined investors. We will continue to perform our fundamental analysis and hopefully have the ability to add some very high-quality stocks with attractive long-term growth prospects at bargain prices. This is not to imply that we will be making drastic changes to the portfolio. Again, we entered this period with a portfolio of very strong companies.

Going through markets like this is very difficult. It puts pressure on everyone. Our experience over the last 40 years suggests that the best posture in a period such as this is to stay calm, focus on the long term, and rely on the inherent strengths that are already in the portfolio. This does not mean that we are downplaying the seriousness of the coronavirus. It does mean that we have confidence in the type of companies you own. They are enduring businesses. We also have confidence in the resiliency of the U.S. economy. Structurally, it is sound, and it will recover from any interruption in its growth and provide a constructive environment in which businesses can prosper.