MARKET AND ECONOMIC REVIEW & OUTLOOK

AN UPDATE FROM THE ADVISORS AT GASKIN ASSET MANAGEMENT *CHARLOTTE, NORTH CAROLINA*

The following letter was written for you by your advisors at Gaskin Asset Management and does not necessarily reflect the opinions of Raymond James or its affiliates. We know this is a long letter, but we hope you will invest five minutes in reading it. Thank you.

Only the Brave

If you are stuck at home and surfing for movies to watch, you may want to consider *Only the Brave*. It was released in 2017 and is based on a true story about an elite group of men who voluntarily endangered their lives to protect the homes, businesses, communities and lives of others. The Granite Mountain "Hotshots", as they were known, were a group of young men who trained diligently in preparation to push their bodies beyond the limits of normal human strength and stamina in the face of great personal danger. It's truly an amazing story of triumph and loss. While the heat, humidity, wind and fuel are beyond the control of the Hotshots, their physical strength, knowledge, tools, teamwork and sheer tenacity serve as the balance of power that ultimately enables them to fight the seemingly unquenchable blaze. The Hotshots wake each day to engage the engulfing enemy in a life or death battle.

Special Thanks to All Those Who Serve!

Today, in the face of the raging wildfire that is Coronavirus, we see this sacrificial commitment playing out all around us but especially in our hospitals. As we each seek ways to avoid contagion, we remember those closer to home who are working endless hours in selfless sacrifice in the healthcare, and public service arena. We owe each of these brave warriors a debt of gratitude. However, they are not alone in the challenges they face as so many are adapting and adjusting to these unprecedented times.

This Time Is Different

We have faced epidemics and pandemics in the past. This is different. The daily press briefings and news from Italy to Spain to New York City paint an ominous picture. While intended to provide some degree of information and reassurance, it seems we are left with more uncertainty and fear of the unknown. So, we follow the guidance of doctors, scientists, and bureaucrats regarding handwashing and social distancing. We hunker down in the safety of our homes. Impatiently, we wait. When will we return to normal? What will "normal" look like in the months ahead? Never in the history of our country and never in world history have we seen a government-imposed economic shutdown approaching what we are experiencing today. This could not have been foreseen yet this is where we find ourselves today. We are in it together. Since no one knows or can possibly know how this whole thing is going to play out, *let us attempt to focus on what we do know and what we can do.*

An update on your team at Gaskin Asset Management

While we remain hopeful and prayerful that COVID-19 will not impact you, your family or our families, we believe that we must all do our part to minimize the possibility of transmission. Consequently, at Gaskin Asset Management, we are following the guidance of health professionals and governmental authorities. We have made a few adjustments to our work schedules and environment that we should share with you. First, the financial services industry is deemed one of the critical industries that must remain "open for business".

Unless illness or injury precludes, Ivey & Bob will be in the office each business day during normal business hours while Paul will work from his home office. We will both be available to you by phone and email. We believe this will reduce the likelihood that we might both contract the virus. Second, Tina will split her time between her home office and the GAM office while Gayle will work from home with a single-minded focus on reviewing and updating all of our individual client financial plans, including yours. Finally, Henry will remain at home until the contagion risks subside. All of this is to say we remain 100% committed to serving you during this challenging time. We recognize the significant privilege and responsibility that rests upon our shoulders to serve you and your family during this difficult time. We will be here for you!

Financial Review & Outlook

Just in case you haven't been paying attention, the stock market had a bad first quarter. In fact, U.S. stocks posted their worst first quarter performance since the bottom of the 2008 financial crisis.[i] This marked the end of the longest bull market in U.S. history. The Dow Jones Industrial Average* finished down 23% for the quarter, its worst quarter since 1987, while the S&P 500 index** finished the quarter down 20% which was its worst since 2008. If the volatility has seemed a bit unsettling to you, you're not alone. The S&P 500 index average daily percentage change in March was 5% which blew past the previous average high during the Great Depression. You read that right. The volatility was not equally distributed throughout the economy as energy stocks and financials took the worst of the beating while staples, health care and technology stocks suffered the least. If you have maintained your cool, please pat yourself on the back and accept our sincere thanks. It's a little crazy out there so you're entitled to be a bit rattled. But please understand, while it's natural to be a bit concerned and maybe even upset, this is not a time to make long-term changes based on unprecedented short-term economic disruptions.

The numbers we've referenced above appear a bit dire, but rest assured this is not 2008 all over again. Unlike the economic earthquake of 2008, the U.S. economy entered the Coronavirus pandemic on solid financial ground. In 2008, U.S. banks were undercapitalized, homeowners with no credit owned homes with no equity, and opaque financial instruments served as much of the foundation for the colossal house of cards that was our economic system. When the U.S. financial house came down leading to the Great Recession, it had to be rebuilt brick by brick from the foundation up. Things are totally different today. Following the financial crisis, U.S. banks were placed under the highest imaginable scrutiny which remains in place almost 12 years later. Today, banks are well capitalized and well positioned to weather this storm. This was and remains a government-imposed economic shutdown of the U.S. economy. So please do not lose faith in our economy or the financial underpinnings which hold it together. Sure, we may discover weaknesses in our system due to the extreme pressures that are being applied but these are, after all, unprecedented measures which could not have been imagined and planned for as this has never happened in the history of our country.

First quarter GDP was expected to be positive just a few weeks ago with estimated growth of 3.1% for the quarter. The new year started with a continuation of the strong economy that rolled through 2019 and looked certain to post similar growth. According to a recent editorial in *The Wall Street Journal*, the National Federation of Independent Business polled 627 of its members with most of the responses coming just before the economic shutdown.[ii] They found that 54% were actively hiring new employees with 35% having job openings they were unable to fill due to the tight labor market. Further, 31% reported giving their employees raises with another 16% planning to offer raises in the coming months. Just weeks later after a forced economic shutdown, the short-term outlook has practically reversed. Many companies are now laying off or furloughing employees resulting in unemployment claims ballooning to a weekly rate of more than 6.6 million last week. For example, with more than 15 million Americans working in the restaurant industry alone, we should not be surprised to see unemployment numbers spike with most restaurants being limited to delivery only. Consider the airline industry, cruise lines, professional sports and so many other industries that were essentially shut down. Now, the GDP estimates are looking closer to a decline of 1.5% for the first quarter. There is no sugar-coating the second quarter GDP estimates as they range from -10% to -20%+. The markets appear to be pricing in a decline in earnings between 60-80% for 2020. While we believe this type of drop is likely in the 2nd quarter, we believe it is premature to assume that the economy will remain depressed for the rest of 2020.

What Should We Expect Going Forward?

First, beware of all predictions. Most predictions today – both those from scientists and economists – are changing daily with models being adjusted as more data becomes available. This virus and our collective reaction are all new. A little perspective may prove helpful. The last bear market ended on March 6, 2009[iii]. After losing nearly 49% from peak to trough, the Dow Jones Industrial Average began its ascent on March 9, 2009 and had recovered to pre-recession levels within four (4) years and continued mostly without pause until reaching nearly 30,000. By contrast, the market did not fall as far after 9/11 but rallied and had recovered in less than a month. We can go back even further and consider the markets' reaction to the Spanish flu of 1918-19. Considered the worst pandemic of modern times, it created both a supply and demand shock causing the Dow Jones to lose 40% with the recovery beginning within three years and continuing nearly another ten years. [iv]

Remember, this time is completely different from past economic shocks so we should not expect a recovery to mimic any past recovery. The economy was fundamentally sound and growing when COVID-19 hit U.S. shores. With edicts from Washington and state capitols, businesses were closed or significantly limited with what appears to have been only secondary thoughts to the economic impact as leaders deferred to the experts. Only time will reveal the full unintended consequences of the decisions made by a handful of folks.

Previous Pandemics May Provide Some Guidance

A recent release from the Centers for Disease Control (CDC) stated that during the 2018-2019 flu epidemic in the U.S., we suffered more than 490,000 hospitalizations and 34,000 deaths[v]. For comparison, the Swine Flu of 2009 resulted in more than 274,000 hospitalizations and 12,000 deaths in the U.S. alone. The global death toll for the swine flu of 2009-2010 is estimated to have ranged from 151,700 to 575,000 individuals lost. Some would argue that these are not fair comparisons because it appears that the death rate for COVID-19 is far higher than swine flu and the common flu. However, it is also highly possible that the denominator we are using for our calculations is far too low given the shortage of testing kits which results in a selection bias toward only the sickest individuals. Again, only time will answer these questions and we certainly would not fault those who are in the unenviable position of making these difficult decisions. In the meantime, we continue to operate under the fear that we are facing a pandemic on the scale of the Spanish flu of 1918. We are encouraged because while the microscopic bug of today may be as nasty as the one of 1918, we surely are not the same country. From the individuals who serve us to the tools, medicines, facilities, techniques and communication they utilize, our healthcare system is far and away superior to that of 1918 America. And beyond our healthcare system, what an amazing sight it is to see U.S. companies stepping up to reconfigure their production lines to make ventilators, masks, gowns and the other desperately needed supplies.

When Should We Expect a Recovery?

First, we believe the market will absolutely recover but we cannot say exactly when, of course. We hope to see a recovery that mimics the decline. That is, a quick, "V-shaped" recovery. We believe this is more likely if we see economic activity returning in weeks rather than months. If the economy remains in the current state of limbo, we believe the recovery could take longer and form more of a "U-shape". The gears of industry will require more time to get moving the longer they remain idle. It's important to remember that the stock market is a barometer more than a thermometer. It points to changes that are coming more than it measures the current situation. As such, the markets will rally well before we get back to "normal". We don't want to miss that recovery. Consequently, we recommend that investors maintain well-diversified portfolios with a bias toward well capitalized large capitalization "blue chip" U.S. companies within the equity portion of portfolios.

In closing, we regret that we cannot visit with you face-to-face right now. Please understand that we think of you often and wish good health and safety for you and your family. We remain available to you by telephone and email. We hope you can enjoy this beautiful spring weather just as we hope to enjoy a little time outdoors. While I know it's easier said than done, please join us in focusing on those things that truly matter and the areas in which we can control while letting go of the things beyond our reach. In the days and weeks to come, we intend to stay in touch with you through emails, letters, calls and even another video or two.

Robert J. Gaskin, CIMA®
Managing Principal
Senior Financial Advisor, RJFS

Paul A. Gaskin
Senior Portfolio Manager
Senior Financial Advisor, RJFS

---

[i] Otani, Akane, "Stocks End Worst Quarter in 12 Years", The Wall Street Journal. April 1, 2020, p. A1
[ii] The Editorial Board, "The Sunny Days Before the Virus", The Wall Street Journal. April 2, 2020, p.A18
[iii] https://www.forbes.com/sites/greatspeculations/2020/03/16/market-crashes-compared28-coronavirus-crash-vs-4-historic-market-crashes/#1ba8e103fa45
[iv] Williamson, Sarah Keohane, "Investors, Keep Your Eye on the Long Run", The Wall Street Journal., March 16, 2020, digital version.
[v] https://www.cdc.gov/flu/about/burden/index.html