SAGE Global Market Perspective – Cautious Optimism

April 30, 2020

Dear Clients,

In the wake of the swiftest bear market selloff in history, we have since witnessed markets steadily climb throughout April. Much of the optimism fueling this rebound can be attributed to positive news surrounding COVID-19 containment efforts as well as the partial reopening of major economies in the Far East, Europe, and a number U.S. states. Although the SAGE Investment Committee is encouraged by global containment efforts, we believe that market volatility will persist for a prolonged period of time while investors actively gauge the economic impact, the cost of stimulus, and the uncertainties surrounding the reopening process.

When assessing economic conditions, we typically rely on backward-looking data to confirm results, but we believe it is fair to say that results for the current quarter will be tumultuous. Although there is never a good time for such an event to occur, unfortunately March through June is normally a strong period for the U.S economy, where we usually see more positive business creation, employment gains, retail sales, and housing activity. To no surprise, retail sales fell 8.7% in March.* That reflected weakness in restaurants, department stores, clothing stores, gas stations, and auto dealerships. Manufacturing output was reported down 6.3%*, with sharp weakness in auto production. Although these figures would be indicative of a recession, we believe that declines are temporary and that a meaningful recovery will ensue during end of Q3 and throughout Q4 of this year.

In the meantime, lawmakers in Washington rapidly passed four phases of support, totaling nearly $4 trillion. These efforts include public health expenditures, an expansion of unemployment benefits, lending to small businesses, checks to individuals, and additional funding for state and local governments. Although the stimulus is providing much needed relief, many investors are concerned with how we, as society, will pay for the increase in government borrowing. This concern also arose in the aftermath of the 2009 financial crisis and the result will likely be the same. Strong demand for safe haven assets, such as U.S. treasuries has pushed interest rates to historic low levels. Similar to the financial crisis and even the WWII era, we never repaid the debt, rather we rolled it over and fulfilled the interest obligation.

As for reopening the global economy, we believe that unwinding social distancing should be coordinated, in phases, with widespread testing, continued elevated hygiene, plenty of personal protective equipment, and contact tracing. The process should be dynamic, so that if the virus appears to be spreading more rapidly in one area, we can resume social distancing to tap that down. However, if we reopen too quickly, there is a potential that the virus spread will continue and social distancing will last longer, resulting in a larger negative impact to the economy.

Again, although we are encouraged by global containment efforts, we remain cautious. We believe that a return to normal will take time and will not fully occur until we get a successful treatment for those

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infected. For this reason, we are content to maintain larger than typical risk control assets. We are confident that our longstanding preference for U.S. growth equity exposure will continue to enable portfolios to meaningfully participate in rallies during this period of heightened volatility.

If anything in your circumstances should change, please be certain to share that and other new information with your Wealth Advisor.

Kind regards,
SAGE Investment Committee

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