Market Update from Thrivent

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The federal government acts

The U.S. federal government is set to pass a massive financial support and stimulus bill that is unprecedented in size and scope. At $2 trillion, which is equivalent to approximately 10% of annual gross domestic product (GDP), the bill is far larger than any single federal government program (as a percentage of GDP) since the Great Depression. This is in addition to two much smaller measures that were passed in the past two weeks.

A key provision in the bill provides immediate financial support to individuals ($1,200), married couples ($2,400) and children ($500). Unemployment benefits will also be extended. Support for small business will come in the form of approximately $367 billion in aid through loan forgiveness, payroll tax relief and other measures. A $500 billion "stabilization fund" will be created to support industries and large business through grants, loans and other measures. Finally, substantial resources—up to $300 billion—are being established to help hospitals, health care facilities and states combat this health crisis.

Final passage still needs to occur, but it seems the only question is if it will be immediately and unanimously approved. If unanimous, the government can then turn immediately to the execution phase of ramping up rebate checks, setting up loan funds and directing immediate dollars to the health care system and the states. As always, there may be some "devil in the details", but clearly, policymakers and politicians are working to fulfill their obligation to the country and its citizens in this very difficult period.

The Federal Reserve was already in full execution mode today, pumping hundreds of billions of dollars into the system and doing whatever it took to provide necessary liquidity and support the functioning of markets. It has been an impressive display of the Fed doing what it was created to do back in 1913.

The coronavirus spread accelerates

The numbers related to this pandemic continue to change by the minute, with no sign of the curve "flattening" in Europe or the United States. New York has now become a hot spot and concern is mounting that the health care system there is rapidly running out of capacity to deal with patients. Social distancing and "Safer in Place" orders continue and will most likely become more pervasive around the country. Meanwhile, herculean efforts by businesses, local governments and individuals to manufacture, procure and distribute personal protective equipment (PPE), ventilators and other supplies are ramping up. It is evident the country is at least two to three weeks away, if not longer, from seeing a peak in the growth rate of reported cases. In short, we're nowhere close to our lives returning to normal—whatever the "new normal" will be.

The markets

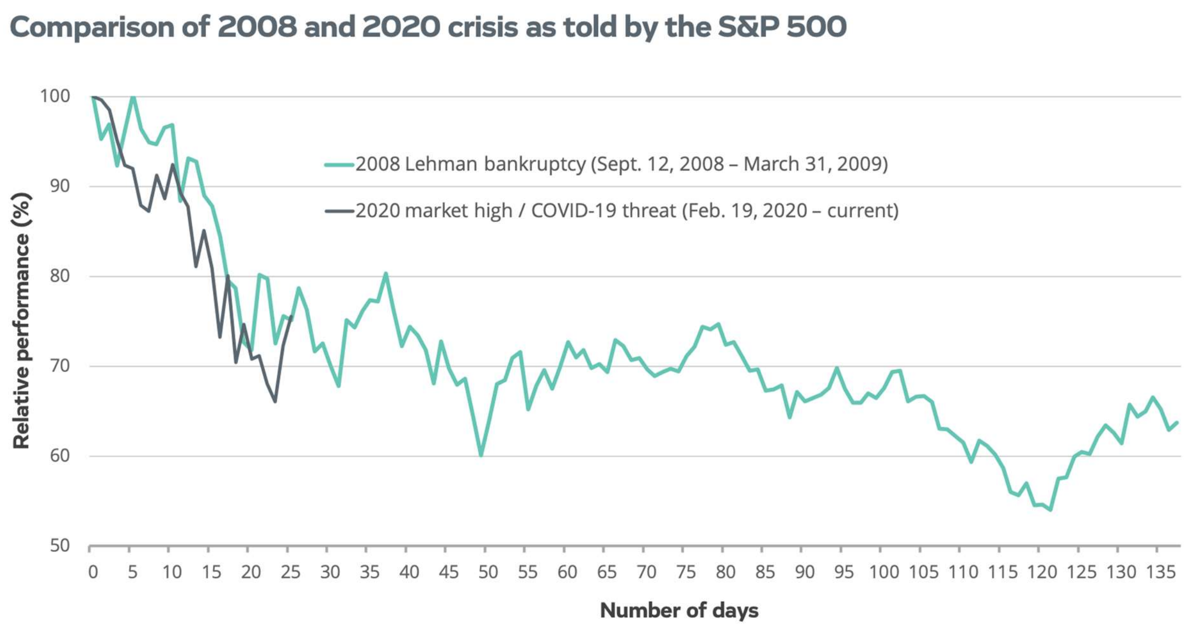
Markets continue to react very favorably to the full-bore Federal Reserve monetary policy and prospective federal government fiscal policy. Combined fiscal and monetary policy programs could near an equivalent of 30% of GDP! This is a huge number, and if effectively implemented, will provide a meaningful bridge to the second half of the year, hopefully after the challenges of this crisis have subsided.

As outlined in our previous updates, corporate bonds have come roaring back in price after their precipitous plunge. That price action continued today. Calmer financial markets have also allowed for a deluge of corporate borrowers to access the credit markets, thus bolstering their liquidity positions. The municipal bond market, which is much more sensitive to fiscal and tax policy measures, also joined in the recovery, as prices surged higher in the secondary markets. Even after today's price action, municipal bond yields, relative to taxable securities, remain at historically high, i.e. "cheap," levels.

Stock markets around the world have continued to surge higher after their historic runup yesterday, although the U.S. stock market faded somewhat later in the trading session. Investors are reacting favorably to government actions, significantly discounted valuations and signs that the mad scramble for cash is abating. Today saw significant disparities in relative stock price performance, as previously defensive quality sectors such as large tech, consumer staples and utilities significantly lagged the performance of economically sensitive sectors. Boeing is a startling example, up approximately 30% as of this writing!

When will the market bottom?

This is the obvious question on everyone's mind. No one knows, and to say otherwise, particularly in this unprecedented time, is irresponsible. However, it is instructive to see how the market has behaved in past crises. The Great Financial Crisis (GFC) crisis of 2008 offers data for comparison. The following chart shows the current bear market experience (which was the fastest decline to bear market territory on record) with the price action of the 2008 GFC bear market. Clearly, as in 2008, the first leg down in the market was sharp and swift. Then the market stabilized and, in fact, had some sharp rallies. Volatility remained extremely elevated, with a final bottom about 120 days out from the previous high. Although not on this chart, the subsequent 11-year rally in prices was historic.



Source: Cornerstone Macro

So, with the 2008 historical experience as a guide, we expect volatility to remain very high as we go through the bottoming process. History shows that the market can go lower. However, history also shows that markets do ultimately recover, even after very dark circumstances. Who knows if we have seen the lows of this bear market, but valuations have come down considerably; government and federal reserve policies are pumping trillions of dollars into the system; and opportunistic investors are showing signs of buying risk assets.

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