

## Market update from Thrivent

March 17, 2020



**Mark Simenstad, CFA**  
Chief Investment Strategist,  
Thrivent Asset Management

The coronavirus pandemic continues to shake the world politically, socially, and economically. Unlike past market crises that were triggered by underlying economic or financial problems, this crisis is triggered by a biological problem. And while the crisis was triggered by a virus, rich valuations in stocks and credit along with bullish sentiment and positioning added to the downdraft and volatility. The ultimate resolution to this crisis will need to come from scientific solutions. Social behavioral responses, enabled by effective political and policy initiatives, will also be critical in buying time before scientific solutions can be aggressively executed to halt this pandemic. The following are key dimensions of this rapidly developing situation:

- **The coronavirus:** The rate of infection is currently on an exponential upward curve in both the U.S. and Europe, while slowing dramatically in Asia. Both the federal government and most states have enacted surprisingly aggressive policies to curtail social interaction and “flatten the curve” in terms of the rate of infection. It will take some time to see if these unprecedented actions will be effective. There is evidence that aggressive isolation and “social distancing” steps in Asia have worked to sharply reduce the incidence of infection. There are also some encouraging signs that the private sector in the U.S. is very focused on this problem. A unique government/corporate partnership is being put together to coordinate rapid virus testing, a critical element to understanding and controlling the contagion. Finally, the bio/pharma industry is working intently to come up with a possible vaccination and cure. Some glimmers of encouragement are coming from preliminary research, but it will likely take at least a year for these efforts to manifest.
- **Government response:** In addition to supporting efforts to fight the spread of the disease, the Federal Government is moving to take steps to counter the very negative effects that social behavior policies are having on the economy and markets. The Federal Reserve has begun to follow the “play book” that helped support the economy during the financial crisis by lowering short-term rate to effectively 0% and restarting a bond buying program to inject liquidity and stability into the financial system. Congress is also contemplating a prospective \$1 trillion program to support the economy. The details are far from determined, but it is reminiscent of the TARP program that, although controversial in 2009, in the end was effective in stabilizing the economy.
- **The economy:** It is assured that the global economy and the United States are in a sharply contractionary environment. The biggest unknown is how deep and how long this contraction/recession will last. As of now it is evident that the first half of 2020 will be very difficult,

particularly the second quarter. It is a positive that both the consumer and the banking system were in very healthy positions going into the problem, unlike the financial crisis of 2008. However, the shutting down of many businesses, particularly small businesses which make up roughly 50% of the economy, will be a severe headwind to overcome. Government policies, both fiscal and monetary, will need to be focused on this area to provide a bridge to a more stable environment that hopefully will ensue after the virus diminishes.

- **The markets:** The stock market has experienced the swiftest fall into “bear market” territory (down over 20%) on record. It only took 16 days! As such, most investors have not had time or an opportunity to respond or to re-orient their portfolios. To keep things in perspective, we are now back to the lows of late December 2018 after the surprising run-up the market experienced in 2019. Meanwhile treasury yields have collapsed, but seem to be finding a bottom, while corporate, high-yield and municipal bond yield spreads have widened dramatically. Volatility in both the stock and bond markets has been at unbelievably high and unprecedented levels.

## **Our view**

Given the high degree of uncertainty on many fronts, and the exceptional degree of market volatility, it is not advisable to make major changes in an investment portfolio. In fact, to do so in this environment may prove to be very costly in the long run. It is encouraging that individuals, corporations and government policy seem to be aligning to confront, minimize and ultimately resolve this unique crisis. However, this won't happen overnight. Expect continued market volatility and even further declines, but eventually the crisis will pass. After such a swift and chaotic decline, opportunities usually arise. This crisis will be no different. Certain sectors of the market are beginning to trade at extraordinarily discounted levels. After an investor is confident that she/he has enough liquidity to weather these extraordinary times, selectively buying discounted assets will likely prove to be rewarding in the long-term. Stay tuned for further insights as this unique situation unfolds and valuation opportunities emerge.

---

All information and representations herein are as of March 17, 2020, unless otherwise noted.

The views expressed are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Thrivent Asset Management associates. Actual investment decisions made by Thrivent Asset Management will not necessarily reflect the views expressed. This information should not be considered investment advice or a recommendation of any particular security, strategy or product. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon, and risk tolerance.

### ***Past performance is no indication of future results.***

Thrivent Asset Management, LLC, is an SEC-registered investment adviser and subsidiary of Thrivent Financial for Lutherans.

Media contact: Samantha Mehrotra, 612-844-4197; [samantha.mehrotra@thrivent.com](mailto:samantha.mehrotra@thrivent.com)