CONGRESS ASSET MANAGEMENT COMPANY

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The Markets Need a Clearer Path

Fear continues to grip the financial markets. Both stocks and bonds are trying to digest the economic impact of the coronavirus during what the World Health Organization calls an infodemic, an over-abundance of information – some accurate and some not – that makes it hard for people to find trustworthy sources and reliable guidance when they need it.

Stocks have been down four of the last five weeks recording the quickest bear market on record. The bond market return is subtler with U. S. Treasuries rallying but the spread, the yield differential between corporate bonds and treasuries, widening. The key to a more stable stock market may be an improvement in bond market liquidity and a concerted effort in Washington to help businesses weather the storm.

Market volatility can be expected, but the speed with which this coronavirus spread and the global reaction to it – a forced curtailment of economic activity – is unprecedented. The unfortunate consequence of social distancing and forced inactivity is probably a sharp recession. From the markets' perspectives, the biggest unknown is how long will it last. This is what is weighing on investors - increasing uncertainty and driving volatility to heights not seen since the 2008-2009 financial crisis.

The sudden economic shock has caused liquidity to evaporate, notable in various fixed income markets. The Federal Reserve has stepped in aggressively, lowering rates, backstopping money market funds and increasing bond purchases. These are necessary steps but cannot force a resumption in economic activity if businesses are shuttered. The Fed will likely receive additional firepower to more directly support both the corporate debt and municipal bond markets in the next stimulus package. This, along with other measures, should help the bond market find its equilibrium, smoothing the ride for bond investors and, indirectly, for stock investors.

None of these measures, however, can turn the economy back on until the U.S. opens for business again. Lacking a timetable for such an event, stock investors also need to see a fiscal package that can help businesses stay afloat in the meantime. The stock market does not need to see an end to the restrictions, in our view, but rather a path forward based on a reasonable time table.

As difficult as these times are, the U.S. economy is broad and deep. Businesses are adjusting, store shelves will be re-stocked, and companies are re-tooling to meet the demands for medical supplies and instruments. Banks are well capitalized and do not face the existential risk of 2008. State and local governments have been responsive and are better equipped than Washington to meet local needs. Washington's job now is to get a fiscal response on the books to lend confidence to the public.

Looking past this crisis, we are confident in the resiliency of the U.S. economy, its consumers and businesses. While difficult to hold stocks in this environment, they remain the best investment for the intermediate to longer term.

-Congress Asset Management Investment Oversight Committee