Market Update from Thrivent

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The current market environment feels like we're all living the 1993 movie, "Groundhog Day", where Phil (played by Bill Murray) wakes up to the same news and goes through the same routine day after day. Unfortunately for many of us, we're waking up, staying most of the day in the same house or apartment, watching the same news of volatile markets lurching to ever lower levels by the end of each day. In the movie, Phil, previously cynical and self-absorbed, discovers he can use this "time warp" to build relationships, help others and even explore some long-dormant interests. Hopefully, we can all see and experience some "silver lining" benefits through the current dark clouds of uncertainty and anxiety.

Federal Reserve programs show promise

Monday brought a barrage of government initiatives and potential policies targeted at fighting the immense economic challenges brought on by the COVID-19 pandemic. The Federal Reserve unleashed multiple massive programs geared at providing urgently needed liquidity to both the short-term money markets and the investment grade corporate bond market. They also announced a program that provides for virtually unlimited buying of treasury and mortgage-backed securities in order to stabilize these key sectors of the credit markets. The initial impact has been very favorable, as treasury bond prices rallied sharply, and investment grade corporate bond prices soared. As has been the case in nearly every previous financial crisis, it is imperative that dysfunctional credit markets be first addressed and stabilized through assertive Fed action. The Federal Reserve has made it very clear that it will do whatever it takes to provide liquidity to support markets and the economy.

Congress negotiating fiscal bill

Meanwhile, a historically large fiscal bill is being negotiated in Congress, one that could provide fiscal stimulus that may equal up to 10% of GDP. This will be critical given that many policymakers and economists are forecasting that GDP could shrink by 10-15% during this crisis, with unemployment spiking to previously unimaginable levels. There seems to be broad agreement that the plan needs to provide immediate financial support to individuals and small business, while also providing meaningful funding support to large businesses. Like the financial crisis of 2008, large programs like this are fraught with political and technical challenges. However, both sides of the political isle should understand that a large support program is necessary and needs to be enacted as soon as possible. To fail at this would be another jolt to markets. Ultimately, policymakers and even politicians understand that failure is not an option.

Coronavirus statistics continue to rise

Meanwhile coronavirus cases in the US and globally remain on an upward parabolic path. Markets will not “breathe easier” until these contagion statistics begin to stabilize and move lower. Unfortunately, epidemiologists appear uniform in their outlook that the outbreak statistics will get worse, and possibly much worse, before they get better.

High degree of uncertainty remains

Many market and sector valuation metrics are currently at extremely oversold and/or historically cheap levels. However, many valuation metrics are based on stale corporate earnings assumptions, which are, in turn, dependent on uncertain economic assumptions, especially the health of the consumer. Given the unprecedented shutdown of economic activity to combat the spread of the coronavirus, it is difficult to act on these signals given the high degree of uncertainty that persists.

As mentioned previously, although it is only one day, it is encouraging to see credit markets responding in a very favorable manner. For long-term, income-oriented investors, higher-quality corporate and municipal bonds look attractive, particularly with a backstop of Fed policy and interest rates that will remain low for quite some time.

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