March 2020
SKBA Market Update

Silver Linings in the Midst of Distress

When in the midst of panic selling, it's painful to watch stocks plunge and the value of your portfolio shrink. Furthermore, as investor time horizons shrink, the market seems unwilling to look beyond the transitory impacts of whatever is afflicting the market. This time the affliction's foundation is the emergence of the public health crisis associated with the coronavirus pathogen. However, as has been the case with many market sell offs in the new century, we believe simply choosing to follow suit in the midst of a panic is often detrimental to your financial health. Holding on and persevering has, in our view, paid dividends in terms of higher income and wealth on the other side of the crisis. You may find it useful to remind yourself that equity values only become realized when one presses the sell button.

Events such as the emergence of the coronavirus are completely unpredictable. However, at the same time, the negative impacts of such events are somewhat more predictable. In our view, it is crucial to understand that negative economic effects will ultimately come to an end as the impact is transitory rather than permanent. After all, during the 2018-19 flu season in the U.S., more than 35 million cases of flu were reported with roughly 34,000 deaths. Over time we've learned to accept the negatives effects of the annual flu season with minimal economic impact.

The coronavirus crisis is unique in regard to the ease with which the disease is transferred from one person to another. Indeed, it has spread around the world like a wildfire; yet unlike past pandemics like the Spanish Flu in 1918-1919, SARS, MERS, and Ebola, along with the more common flu virus already mentioned, the world's ability to detect it, track it, treat it, develop immunizations for it, and quarantine individuals and groups exposed to the virus has never been better. This is not meant to minimize the suffering and deaths that have accompanied the spread of the virus; this is a terrible tragedy.

Yet we at SKBA are paying close attention to the effects of the virus on the U.S. and world economies, and are working to distinguish the permanent effects from temporary ones. The panic buying of U.S. Treasury bonds and the panic selling of stocks is, to us, indicative of the fears in the market and the propensity to not look beyond 2-3 months in these situations. It is quite possible that the worldwide slowdown could generate a "technical" recession in the U.S. (meaning real GDP growth declines for two consecutive quarters) in the 1st and 2nd quarters of 2020, but given the underlying resiliency of the economy, we believe a recovery in similar magnitude should be expected. We do not think this will be the case for every part of the economy, however. Cruise ship lines are likely to see a long-lasting negative impact as repeated news reports regarding customers getting trapped on cruise vessels will probably hurt revenues for these companies well into the future.

And at the same time, there are silver linings to this correction in the market. We see new opportunities, unavailable at previously higher prices come into view. We will execute swap transactions to take losses in some securities while buying others that offer similar, if not better upside opportunities from today's depressed price levels. We do not believe that market plunge of January, February and March is permanent. As heretofore unavailable opportunities present themselves to us as value investors, we expect to capture them and to report to you about them. We believe this is one of the better investing environments we've seen in years.

Our very best wishes to you,

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