Registered Investment Advisor Firm

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Pandemic Economy

As states slowly reopen their economies from the coronavirus, what will the "new normal" for business be? Don't expect a sudden restart of commerce, reopening will happen in degrees. And even when states give the greenlight, consumers will stay cautious. Online shopping stands to receive a boost, manufacturing and supply chain companies will experience bottlenecks.

These challenges and limitations mean a slow recovery for the economy and jobless rate figures to remain elevated for years. Inflation may jump later, as businesses raise prices to offset reduced productivity. Don't overlook the risk of the epidemic flaring up again as people go out and interact more.

This is a new era in monetary policy. The FED has a do-it-all role as it tries to revive the economy from the shock of reaction to the coronavirus. Businesses, investors, savers and borrowers all stand to feel the effects.

The traditional tool the FED has used to tamp down inflation during good times or boost growth during bad times is interest rates. Rates across the board will be miniscule for years to come. The FED expects rates to remain low until 2023. Savers will feel the pain of low rates because the yields paid by savings accounts, CDs, Treasuries and other safe options range from slim to zero.

Life insurance policies will suffer as insurance companies raise premiums to offset low bond yields. Employers that operate pension plans will see tiny yields put more plans into underfunded status and require new cash infusion to pay for future benefits. Borrowers gain from low rates. Mortgages, car loans and other consumer credit stand to stay cheap as well as businesses whose customers finance purchases.

The cost of spiraling federal debt figures to stay manageable due to the ultralow bond yields.

Easy money encourages businesses to borrow heavily, instead of raising capital by issuing equity, leaving many

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encumbered by massive debt. For investors, when yields are so low, capital tends to flow into the stock market, providing a powerful tailwind for share prices. Without safe options, speculation can flourish and lead to bubbles that pop painfully.

The FED is becoming a sort of superlender, offering trillions in loans to businesses, municipal governments and others as well as buying corporate bonds, commercial paper and securities backed by student loans, among other debts.

Luckily, one of the few innovations it won't try is negative interest rates, which are used in Europe and Asia, which squeeze bank profits without seeming to boost the economy.

While most economic analysts expect the economy to recover in the second half of the year, the move up in longer-term yields may be discounting a more robust recovery than is likely. Many states still have restrictions on business activity and it's not clear how long it will take for consumer demand to rebound. Moreover, inflation is likely to remain low in light of very high unemployment, and excess capacity in many industries. They expect 10-year Treasury yields could rise to about 1% in the second half of the year, but not much higher unless growth exceeds expectations. Consequently, although they expect the yield curve to stay positively sloped, don't look for much more of an increase in yields from current levels.

Analysts continue to suggest investors keep the average durations in their portfolios somewhat below their benchmarks since interest rates are so low. However, they wouldn't suggest moving all of a fixed income allocation to very short-term maturities, as they expect the FED to keep short-term rates near zero until at least the end of 2021. Look for corporations to refinance their higher interest rate bonds to take advantage of the lower rates.

In the corporate bond market, they still expect to see more credit downgrades to highly leveraged companies in the investment-grade market and a wave of defaults in the high-yield market. After the sharp rally, there is less compensation in the form of extra yield in the market for risk than just a month ago. They suggest investors avoid too much exposure to lower-rated corporate bonds and focus on issuers with stronger balance sheets that can weather the up and downs of the recovery.

What Investors can do now

Although stock markets have shown great resiliency in climbing back from recent lows, it is a reminder that investors should always be prepared for volatility. Here are a few things all investors should remember:

Resist the urge to react to daily market movements. Selling stocks and funds when markets drop can make temporary losses permanent. Staying the course, while difficult emotionally, may be healthier for your portfolio. This doesn't mean you should hold on blindly, but taking into account an investment's future prospects and the

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role it plays in your portfolio, rather than being guided by short-term market movements. If you need money in the next few weeks or months, then you may need to sell some assets to raise cash. Consider using tax-loss harvesting to lessen the impact of selling on your portfolio.

Make sure your portfolio is appropriately diversified. It's always important to be diversified, but it's crucial in rapidly changing markets. Having a mix of investments- including international as well as domestic stocks and funds, fixed income securities and a healthy equity sector mix -can help buffer a portfolio during market ups and downs.

Make sure your portfolio is consistent with your goals, risk tolerance and preferences. If you're uncomfortable with recent market volatility and your goals are short-term, you may want to decrease your exposure to riskier assets and move that money to Treasuries or bank CDs to reduce volatility.

If recent volatility has made you reevaluate your priorities, consider taking time to rethink the key features of your financial life – whether it's your budget, debt situation, or longer-term issues such as insurance and estate plans.

Warren Buffet has a few suggestions on how to financially survive the coronavirus:
-Buy life insurance to provide protection for loved ones.
-Look into debt consolidation loans to rid your higher rate debt.
-Adjust your portfolio to give you some cushioning whenever stocks or funds or sectors go off a cliff.
-Hold on tight during times like these.
-Refinance your mortgage, if possible, to the newer low rates.

If you need help understanding the current economic situation or any other financial questions, contact me at (707) 648-2024.

Q&A

Q: In turning 70, how soon should I apply for Social Security benefits?
A: Applications for benefits can only be processed a maximum of four months before benefits are scheduled to begin. You are considered age 70 for the full month that your 70th birthday occurs. If you start your benefits the month of your birthday, the following month is when you receive your first check.

STAY THE COURSE

FED Watch

The FED at their June meeting left rates unchanged as expected, and had lots of comments on the economy and their predictions of a slow recovery despite seeing green shoots (signs of hope).

The FED had the following notes:
-Financial conditions have improved.
-They will maintain the current range until confident of recovery.
-Rates near zero through 2022.
–They will boost Treasury and mortgage purchases.

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-The slowdown induced sharp declines in activity.
-the economy to run above trend in 2021 and 2022.

Currently, there is very little chance of a rate increase for the rest of the year.

Next meeting:
July 28th and 29th.

Castle Rock Wealth Management

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If you have questions or would like further information on this month's topics or any other financial or investment related subjects, please contact me by phone or through my email address at:
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