John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday April 8, 2020

First, I hope you are healthy and staying safe. Marilynn and I are at home, going out only when absolutely necessary. Our grocery store has special hours for old ducks, and I have a good supply of masks, left over from when I was doing some painting.

The questions we have are the same for everyone. When will this virus crisis come to an end? How severe will the impact on the economy be? When can we expect the recovery to start? And what sort of recovery will it be, V shaped, U shaped or down to stay down like an L? No one knows the future, but the past does provide a basis for expectations. I have been listening to webinars and reading reports from major Wall Street firms. I will share my conclusions with you but first, we do know that the private sector, major pharmaceutical companies, smaller bio-tech companies and scientists at universities are working over-time to find a vaccine, better diagnostics, and better treatments. For example, Abbot Laboratories has received approval for a test that it says can show positive results in five minutes. The company hopes to start delivering kits this week, ramping up production to 50,000 tests a day.

Johnson and Johnson has a vaccine manufacturing facility in the Netherlands. J&J also has a vaccine being tested. The company does not know for sure that the vaccine will be approved. But if it is, the Netherlands facility is not large enough to make all the quantities that will be needed. So, together with the federal government J&J is beginning construction on a billion-dollar vaccine plant in the United States.

These are just two of the hundreds of private sector efforts underway to defeat this virus. No matter how dismal the headlines, you can be sure private sector innovation will succeed and the virus war will be won.

Morgan Stanley Wealth Management publishes a monthly report on economic and financial market conditions, called “On the Markets.” The April issue is all about the virus and its toll on the economy and financial markets.

“Assuming new confirmed cases peak in April/May, and with an aggressive monetary and fiscal policy response in the pipeline, we expect growth to start recovering starting in the third quarter.”

Meanwhile, Morgan Stanley expects a deeper recession but not a depression. Their model shows the U.S. economy contracting in the second quarter at a 30.1% quarter-over-quarter seasonally adjusted annualized rate, a 74-year low. If the virus peaks as expected, this quarter would be the bottom and the economic news would be brighter by the fourth of July.

What is driving the plunge in stocks? Here is Morgan Stanley’s answer:

“Difficult markets normally occur with certain sets of fears, with loss of wealth, job security or downturn in a personal business all par for the course. Since Feb. 19, however, not only have stocks been besieged by a loss of as much as of 34% of their value with record speed. At the same time, people across the world have faced unprecedented disruptions to their lives and often livelihoods in a coordinated attempt to fight a global pandemic.

A public health crisis alongside a market crisis compounds their worries. And while we should all take due precautions to protect the well-being of ourselves and our loved ones, we would caution against a knee-jerk reaction with your investment portfolio. The impact on markets has been severe, but the sell-off also priced a degree of economic damage that may well surpass what comes to pass."

China was the first country to report cases of covid-19. The government imposed strict quarantine measures and now claims success in beating the virus and getting people back to work. The problem is that there are serious critics who accuse China of mishandling the data and even covering up the virus. Is China really recovering?

Morgan Stanley turned to Robert Horrocks chief investment officer of Matthews Asia, an investment management firm and his colleague Andy Rothman, an investment strategist. They gather information about China from the government, independent sources, surveys of consumers and small businesses and by talking to people on the ground.

When asked about current conditions Horrocks replied, "Life there appears to be getting back to sort of normal."

About Chinese stocks he said: "More recently, globally there has been a panic in asset sales to acquire US dollars, but not to the same extent in China. People there were quite happy to hold on to the assets they had. That's why the market impact of the virus in China has been a lot less severe than we've seen elsewhere.

China's central bank was already easing when the virus came, so liquidity conditions were not so strained. In terms of fiscal stimulus, most people both inside and outside China believe that the government would deal with these issues, and therefore there were no panic-induced sales."

I can add that China doesn't have massive hedge funds that can drive markets to excess in both directions by computer programed trading.

Turning to the outlook for China, Andy Rothman has this to say, "Everyday life is a little bit closer to normal, but I think it won't be fully normalized until the end of April, and it's going to vary from sector to sector. Businesses like restaurants and cinemas are not doing so well because people are still nervous about going into confined spaces. On the other hand, companies in manufacturing and services that don't require that kind of gathering appear to be picking up."

We were planning on flying to Australia this month for a cruise around Papua New Guinea. The cruise was canceled. The cruise line gave us a 120% future cruising credit which we will use next year. Delta, to their credit, promptly gave us a full cash refund on the flights. Our next trip is with a small group to the highlands of Scotland in June. It is 50-50 whether or not that trip will be cancelled. Meanwhile, we are happy here at home in Naples Florida.

I will have the next market review and update one week from today on Wednesday April 15, 2020 (which is not tax-day this year).

All the best,

John Dessauer