CLOSING IN ON MUCH NEEDED STIMULUS TO A COVID-19 INFECTED ECONOMY

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The stock market rose in dramatic fashion today on the expectation that the House, Senate, and Executive branches will successfully pass a massive bilateral stimulus bill to combat the coronavirus. The markets have known for at least a week that an accord on a large stimulus package would be reached, but the path to its achievement has been anything but smooth, reflecting the complexity of showering trillions of dollars onto the economy and the vitriolic politics of the day. As investors, we felt every blow in this battle among the two chambers of Congress and the White House, with price swings that boggled the mind.

We assume this bill will be signed into law this evening or tomorrow. Leaders on both sides are invested too heavily in its success to allow passage to fail, we believe, but strange things can happen in Washington.

In our opinion, much more could have been done to prepare the nation from a medical and safety perspective for a deadly pandemic. SARS, MERS and Ebola were warning shots that should have been better heeded. On balance, however, we feel that the federal government has risen to the challenge presented by the coronavirus and found common ground, at least insofar as the economy is concerned. We give the Federal Reserve deserves credit for its aggressive interventions across investment grade fixed income markets, providing critically-needed liquidity and dampening volatility. In our opinion, the economic engine cannot run without functioning money markets.

Step two in the federal government's playbook is the stimulus package reportedly under final negotiation involving $2 trillion of spending. The economy was on a path toward recession as a consequence of the virus, so the stimulus package is an adrenaline shot intended to shorten the economic downdraft. Economists can debate the value of stimulus, but the 2008 financial crisis was answered with significant stimulus, and the recession was fairly short-lived. In contrast, the New Deal was passed in 1933, a full two-and-a-half years after the 1929 stock market crash and well into the Great Depression. We'll side with the Keynesian arguments that a boost to aggregate demand is the appropriate remedy to today's crisis.

We don't know where the markets will go tomorrow, and we know that there is a lot of bad news yet to come in the battle against coronavirus, but we will stick to our guns with respect to owning solid businesses with strong customer relationships and market positions, and trading at good prices. This acute stage of the crisis will be addressed through time, medical treatment and an eventual vaccine. While the economic ripple effects may be felt for many months, good businesses will endure. We believe the high-quality bond issuers will meet their obligations to pay.