



LASSUS WHERLEY

A Subsidiary of Peapack-Gladstone Bank

...a View from the Top

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Take a Few Deep Breaths!

Here's our current View from the Top. We provide our thoughts on recent happenings in the financial markets, the world, some thoughts about 2020, the Coronavirus, and the falling oil prices.

After a pretty good start to 2020 the world tilted and went a little off the rails. Overnight it seems to have picked up steam on that downward trend. We find ourselves thinking about so many things that are happening now. We have concerns about the Coronavirus and the impact on our families and friends. We are also looking down the road and thinking about the impact of the Coronavirus on the US and world economies and ultimately the financial markets. And last, but not least, we have OPEC fighting over oil production and unable to reach an agreement. The overnight drop in oil prices was dramatic and has driven oil to its worst day since 1991. Financial markets are following oil's lead and we are likely to have an incredibly volatile week following the down markets today. More discussion will follow later in this newsletter.

But let's backup and start with the world as we know it. In the last View from the Top we talked about how the markets were getting expensive based on different valuation models. Today we have a downturn in the

financial markets that has reached correction territory and financial markets don't appear to be overvalued. Of course, valuation is really based upon profits so we will have to wait and see how earnings announcements and forecasts go over the next 6 to 12 months.

We do expect growth will slow based on the early estimates of the potential impact of the Coro-



navirus but it is really too early to call whether it will be a slight slowing or a more significant slowing of the economy in the US. China and many other countries around the world are seeing a significant impact on growth based on the literal shutdown of some parts of the country to slow down and/or control the spread



of the Coronavirus. But first let's talk about the Coronavirus and the information currently available.

Covid-19

As most people are now aware, the Coronavirus or Covid-19 is a virus that was identified in China and has spread very quickly. Over the last few weeks it has spread to Japan, Italy, Singapore, Hong Kong, Iran, South Korea and many other countries including the US. The World Health Organization's (WHO) website provides information about Covid-19 including questions and answers to clarify information for those who are concerned. <https://www.who.int/>

Another resource for information is the Centers for Disease Control and Prevention (CDC). The website is updated regularly to provide information on COVID-19.

<https://www.cdc.gov/coronavirus/2019-ncov/index.html>

The bottom line for most of us is to follow the recommendations provided by WHO, the CDC and our State Departments of Health to reduce our personal risk. Many State Departments of Health are now showing the identified cases and test numbers on the website. Here's the website for NJ:

<https://www.nj.gov/>

Recommendations are pretty con-

sistent starting with wash your hands often with soap and water for at least 20 seconds.

Avoid close contact with people who are sick.

Avoid large crowds especially if you have any health issues that might make you more susceptible to the virus.

Stay home when you are sick. Even if you are able to work please help contain the spread. There are many people who are at higher risk due to underlying illness or issues with their immune system. So please pay attention for them even if you aren't worried about yourself.

Clean and disinfect frequently touched objects and surfaces using a regular household cleaning spray or wipe. One suggestion I saw was to use a headset for your cell phone to keep it away from your face. We know that with the touch screens cell phones are the obvious place for germs to collect.

Avoid touching your eyes, nose, and mouth. This is probably the most difficult for all of us. I have resorted to crossing my arms or literally sitting on my hands because I continue to catch myself touching my face.

Cover your cough or sneeze with a tissue, then throw the tissue in the trash.

Think about the following:

Check your regular prescription

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drugs to ensure a continuous supply.

Make sure you have non-prescription drugs and other health supplies including pain/fever relievers, etc.

Talk to family members about how they would be cared for if they got sick.

Plan for possible extended school and day care closures.

Talk to your employer about telecommuting opportunities in the event that movement of people may be restricted.

Plan for a sick room in the home if possible. This is one I had not seen on other lists but certainly makes sense for larger families to try to limit the spread of the Coronavirus.

Our message is pay attention to the news from health care professionals, take every precaution you can to prevent catching the virus, and recognize that we will get through this.

According to many of the experts I have listened to, it is important to slow-down the spread of COVID-19 as much as we can.

We seem to have two extremes in the news concerning the Coronavirus. One view is that it is under control and the other view is that we need to prepare more to slow

the spread.

Based on the research available today it appears that we need to keep our focus on controlling the spread which includes broader testing to establish where the Coronavirus has actually appeared. Based upon data supplied by WHO the numbers don't seem to support a doomsday scenario. The challenge with Covid-19 is it can spread very quickly and because it is a new virus we haven't built up our immunity to the disease. We also know that those who are not in good health including older individuals are at higher risk.

The bottom line is we all have to accept responsibility for helping to reduce the spread of COVID-19 by washing our hands often, not shaking hands or hugging and following the recommendations of our health professionals. Please check out the websites concerning COVID-19 and stay informed.

The Economy

The next question is how will Covid-19 impact the economy in the US and the economies around the world. We have seen the financial markets react to headline news for the last few weeks. Much of the news is related to the spread of Covid-19 and how that will impact the economy. One of the issues in the US is the disruption of the supply chains given the amount of material and parts we buy from China. This could lead to slower growth

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and have a negative impact on the overall economy for some period of time. The second part of the impact in the US is related to how the virus actually spreads in the US and whether it causes shutdowns of local businesses. Many service related companies are able to have employees work from home which will help keep business going. Those companies that have to have employees on-site could suffer if the virus were to spread through their geographic area.

There are many unknowns at this point so we will continue to monitor and assess the health of the economy and the ongoing impact of COVID-19. The financial markets will continue to be volatile and we will probably continue to see negative days for the next few months given the level of uncertainty we are dealing with in the economy. Next we take a look at YTD performance through the end of February.

The First Quarter 2020

As mentioned above, the financial markets have been experiencing some of the most volatile activity since 2008. One day the markets are up 4%, the next they're back down 4%. The biggest driver of this volatility has been the growing

uncertainty of the economic impact of coronavirus COVID-19. Economists are having a difficult time forecasting the expected impact of the virus because we are unable to anticipate how widespread the infection will be. The one thing we do know is that containment efforts may slow down the economy more than the virus itself. As a result, many companies may experience short-term earnings declines in the first half of 2020.

By the end of February, markets had continued to price in the possible impacts of coronavirus containment efforts on company's earnings. Travel related industries such as airlines and cruise ships have been the most impacted, as travel restrictions and declining consumer sentiment have caused many canceled flights and cruises. The S&P 500 was down -8.27% YTD on a total return basis. Small cap and international stocks both fared worse than large cap stocks with the Russell 2000 and MSCI EAFE showing -11.36% and -10.92% returns respectively. Surprisingly, emerging markets stocks have fared quite well, given the fact that the outbreak began in China, the largest country in the MSCI Emerging Markets Index. This index was down -9.68% YTD, but still faring better than small cap and developed international stocks. Further declines in emerging markets have likely been repressed versus their developed peers due to

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lower valuations at the end of 2019.

After their strong performance in 2019, domestic equities came in to 2020 slightly overvalued compared to their respective historical averages. Comparatively, emerging markets,

which were still recovering after the phase 1 trade agreement between the US and China, were still trading at a slight discount to their historical average. This may have helped to soften losses so far because emerging markets were not receding from a higher price as their developed peers.

On the fixed income side, we have seen an unprecedented decline in rates as investors have left equities to invest in safer asset classes. As yields decrease, prices of bonds have moved up, resulting in positive performance YTD. The Barclays Aggregate Bond Index was up 3.76% on a total return basis at the end of February. Additionally, the Federal Reserve issued an emergency rate cut on March 3rd which provided further downward pressure on rates. The Fed openly stated that while they do not know the magnitude of the impact the coronavirus will have on the economy; they are happy to take precautionary steps by setting up an accommodative interest rate environment to stimulate economic

growth. The rate cut was initially well received by investors, but later that day pushed markets into the red as investors continued to worry that the virus impact might be more severe than first expected.

The important thing to remember in volatile times like these is that we are long term investors. While the coronavirus could have a significant impact on short term earnings, demand will eventually bounce back once things have returned to normal. We continue to manage globally diversified portfolios of both stocks and bonds to maintain adequate diversification and soften the impact of market volatility for our clients. It is important to focus on what we are able to control, rather than stress over what we can't control. While we cannot accurately predict the spread or impact of the coronavirus, we can review our short-term cash needs and long-term asset allocations.

We continue to believe that the best thing to do during times of increased volatility is to maintain your long-term allocation, continue to rebalance, and maintain an adequate cash cushion for your needs.

OPEC and Oil Prices

OPEC stands for the Organization of the Petroleum Exporting Countries and has been around for 45 years. Their website defines the mission of the organization as “to coordinate and unify the petroleum

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policies of its Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the

petroleum industry”. The periodic OPEC meeting on Friday ended with no agreement among the countries to reduce oil production and Saudi Arabia launching a price war. The extreme price drop in crude oil combined with Coronavirus concern has driven the market into negative territory we haven’t seen for a while. It appears that Saudi Arabia is trying to force OPEC member countries to reduce production to support the price of oil. Saudi Arabia has some of the lowest production costs but it may still hurt their economy if prices stay this low for very long. We are watching this situation and hoping OPEC can come to an agreement that will stabilize the oil markets.

2020 Election

Another one of those areas where we are dealing with uncertainty is the 2020 election. We are seeing a lot of attention focused on the nominee for the Presidential election with the race narrowing to

VP Joe Biden and Senator Bernie Sanders. Biden has really picked up momentum after his Super Tuesday wins but the ultimate contest is yet to be decided. Probably even more important this year are the House and the Senate races. There are several races where challengers is leading the incumbents in the polls in the Senate which could make for a really interesting fall election season.

And don’t forget those local elections. They are just as important. Hopefully we all have candidates we support. Our election is so critical and the only way we really have a voice is to support candidates and vote. So do your research, make a commitment and vote.

We continue to review and rebalance as needed to keep portfolios in line with their strategic target asset allocations and maintain cash levels as needed. During really volatile markets, such as the current one, we focus on cash needs and review strategic asset allocations based on the needs of our clients. Our crystal ball remains a little hazy but we know diversification works. We also know periodic rebalancing is a good strategy in uncertain financial markets.

Please keep in touch and remember that you are a long-term investor regardless of what happens in the financial markets in the short term.

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You know our mantra. We are long-term investors!!!!

Let us know if your cash needs have changed or there is something else we can help you with. Please let us know if you have any questions. And remember to practice that deep breathing when the world starts to get to you.

Take a break from the news and enjoy the warmer weather!

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