SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

Before & After

There was time before Coronavirus but its importance seems diminished at present. There will be a time after Coronavirus but its visibility seems hazy at best. Amidst Coronavirus now, the challenge is to manage current uncertainties and avoid precipitous actions in the process. Stock market volatility of the past month brought comparisons with earlier cycles reaching as far back as the 1930s. Recent and startling employment losses have brought the term "depression" into economic discussions. A look at some important relationships from the past can provide perspective and investment implications for the future.

PERSPECTIVE

A look back of only a few months reveals how unexpected was the economic impact from Coronavirus. Chart I shows forecasts of real U.S. economic growth for the four quarters of 2020 and the first quarter of 2021. Forecasts were captured monthly from January 1 through April 1. In addition to the consensus forecasts, high and low averages are shown for the top ten and bottom ten forecasts respectively. As can be seen, forecasts from January through March were favorable with tight ranges around consensus for all five quarters. This was the case even though news of the Coronavirus and its spread was becoming well known. As recent as March 1, the consensus odds of a recession in twelve months was only 30%. All that changed in April with the consensus indicating a dramatic decline in 2Q activity and a minimum two-quarter recession.

Looking back to the 1930s shows just how great was the Depression and how volatile was the stock market. Chart II shows calendar year real U.S. economic growth and returns for the Dow Jones Industrial Average ("DJIA"). Obvious observations are how much more variable are annual DJIA returns than economic growth rates and how few years the economy has declined over 90 years. From 1929 to 1933, however, the real U.S. economy collapsed by -45%. Even the government sector declined -7%. The 2020 recession as currently forecasted would result in a decline of -2.9%. From 1930 to 1933, the DJIA declined -76%. A +67% return in 1933 cut the four year loss only to -60%. The current 2020 high to low decline for the DJIA stands at -37%.

The strong and swift U.S. monetary and fiscal policy responses to Coronavirus are widely acknowledged and are expected to be effective in limiting downside risk for both the economy and financial markets. At the same time, concerns are on the rise for an encroachment of the government sector into the private sector and for the challenge of financing now larger deficits. Chart III displays relative percentages of the private and government sectors overtime. A material rise of spending for the war on Coronavirus would not approach World War II relative spending. Nevertheless, monitoring the size and scope of the growth in government is warranted.

INVESTMENT IMPLICATIONS

Good practices in both healthcare and financial management were important before Coronavirus and remain so both during and after. Healthcare reminders now come daily as exercising good practices are a daily regime. Good financial management includes a periodic review of goals, horizons and risk tolerances. There is no time like the present.

CHART I

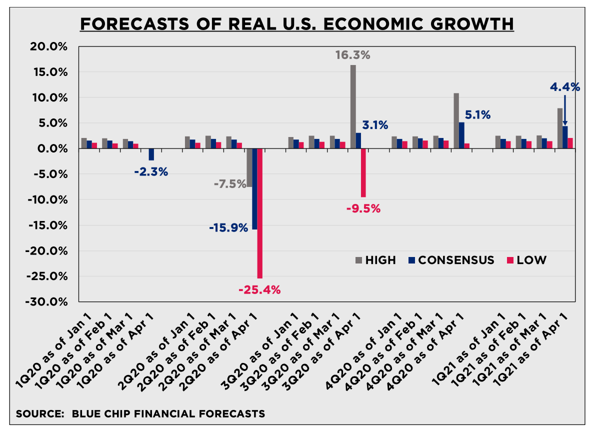

CHART II

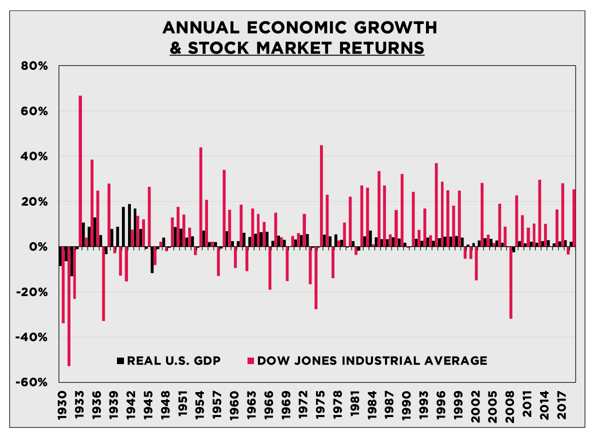

CHART III