efficient MARKET ADVISORS

A BUSINESS OF CANTOR FITZGERALD INVESTMENT ADVISORS

Dear Investors & Financial Advisors:

At this point, the capital markets have moved beyond the potential impacts of the spread of the coronavirus and its ability to strain the capacity of the healthcare system. Many are actively questioning whether the intentional quasi shutdown of the US economy may do more harm than the coronavirus itself. Estimates vary widely about the impact to second quarter GDP but suffice it to say, the economy will contract at a double-digit rate. Even with all the recessions, wars, and natural disasters we've experienced there has yet to be a potential contraction this significant since the Great Depression.

Estimates vary widely, but there is complete consensus that job loss is and will be great. It is likely the unemployment rate will at least double from 3.5% to 7.0% or more in the quarters ahead. What's important now is that we get the nation back to work as quickly as possible. Every day of shutdown lengthens out the recovery curve as it drives more businesses towards bankruptcy.

To be certain, central banks and all level of governments have taken immense steps to mitigate the damage by pumping trillions of dollars into the global economy. Additionally, we've seen action from the International Monetary Fund (IMF) and the World Bank. But all these measures, while welcome and necessary are mostly in place to provide functioning liquidity during mass liquidation, particularly of levered markets. Today, our congress is debating a $2 trillion dollar bailout package which dwarfs the fiscal efforts of the 2008 global financial crisis.

The quality level of virus data we have to make investment decisions is poor. The most glaring example is the data around the growth of infection rates. Many are equating the rise in test availability to a rise in the spread of the disease, yet we know with near certainty that curve flattening measures in place have slowed the actual pace of the disease.

My state's governor said last week that 25.5 million (56%) of Californians will contract the coronavirus.  While no country in the world has come close to this experience, there is a model that suggests it, which he chose to cite. But, given the distancing and other policies in place, the estimate seems ludicrous to most observers.  Still, elected officials have an incentive to plan for the worst, and assumptions of unusually high and long-lasting spread rate are not surprising.

While I am no scientist, I've had several conversations in the last weeks with customers who are, and they universally seem to agree that this plays out in a more normal bell-shaped curve distribution. And, it is our view that markets will react (and the economy) in a "V" shape when that curve flattens. We need to get back to work now to prevent this from being a longer and deeper recession than it needs to be.

The President said today via the Twitter social media platform *"WE CANNOT LET THE CURE BE WORSE THAN THE PROBLEM ITSELF. AT THE END OF THE 15 DAY PERIOD, WE WILL MAKE A DECISION AS TO WHICH WAY WE WANT TO GO!"* This is a hint of good news, albeit a small one.

Obviously, we cannot prevent death by virus, accident, suicide, heart-disease or other causes in America. But as a compassionate society we have a long history of attempting to minimize it when possible. Knowing that there will be death related to recession and unemployment it is imperative that we open America up for business. Viruses kill people every day and always will. If not this one, then another. I believe our leaders of all political leanings are currently aware of this fact and are considering these realities.

I suspect they are now scrambling to identify ways to modestly release the economic tourniquet. Allowing restaurants to open at 50% capacity and increasing the distance between tables would be a good start. Allowing companies and their teams to create safer working environments on their own, an age or health condition restricted work from home mandate, letting only a few shoppers in at a time, wiping down counters, etc. The government has no doubt bought some time to focus on building up hospital capacity and protect the most at-risk amongst us.

As for your portfolio, I turn to that sage old advice about having six months cash reserves. If one is lucky enough be in a position to have a financial advisor, the six months of cash stocked away in a bank applies as much now as ever. Beyond that, investors should avoid succumbing to nervous energy. Investors should be actively engaged with their advisor about potentially adding cash to portfolios to the extent their cash reserves exceed the six months of reserves rule of thumb. I also actively discourage investors from too frequently checking balances and account values, particularly if you are prone to emotional response.

Please do not hesitate to reach out to us if we can be of assistance during this period.


**Herb W. Morgan**
Sr. Managing Director
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