

Market Update

As you are well aware, the financial markets have been reacting to the spread of the novel coronavirus, COVID-19, throughout European countries and the United States. Over the weekend, a new wrinkle in the global economic outlook occurred when Saudi Arabia slashed its official selling price targets for crude oil, after failing to reach an agreement on production cuts with its Russian dominated allies. This led to a sharp decline in global crude prices with the commodity experiencing a more than 20% decline. This represents the biggest daily price move since the Gulf War in 1991. Not only did we see a sharp drop in oil, but the US Treasury curve declined to record yields, 50 basis points on the US 10-year treasury, while equity markets fell roughly 7%.

This latest event will cause us to re-evaluate our economic outlook, but it will not be the time to make wholesale changes in our investment portfolios. We always focus on asset class diversification as a first line of defense in portfolios, along with maintaining a long-term outlook. Owning high quality fixed income has been beneficial with both taxable and tax-free bonds. For equities, diversification by sector, market cap, and geography historically is beneficial. Finally, flight to quality investments such as gold, hard assets and real estate tend to hold up better in periods of market stress. If any material changes to your portfolio do occur, they are likely to be made using a dollar cost averaging approach.

While the economic impact of the oil price war and the COVID-19 virus spread has not yet shown in the data releases, we caution that April and May releases may look quite weak. This is one of the primary reasons we saw the Federal Reserve reduce the Fed Funds target rate by 50-75 basis points prior to next Wednesday's official meeting (3/18). The market now expects an additional rate cut by the Fed at or before that meeting. There is also an expectation of some sort of fiscal stimulus from the US Government in an effort to support economic growth, but that would require bipartisan congressional support.

One final important point on the spread of the virus, is that Beacon employees have remote access capabilities. While we have not been impacted by an office closure, if one were to occur, Beacon will remain open. You will have access to your team in all aspects of communication such as email, phone, text message, etc. We will keep you informed of the rapidly changing environment, but please be assured, our priority of servicing clients is fully intact.

Beacon Trust Investment Committee

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