



### ***COVID 19 Crisis Update***

A brief look at the current state of the economy and markets:

- The US stock market (S&P500) is down 15.8% from its high on February 19<sup>th</sup>.
- The US stock market (S&P500) is up 27.5% from its low on March 23<sup>rd</sup>.
- These movements have represented several of the fastest declines and increases in history.
- GDP in the US contracted 4.8% in the first quarter and is expected to contract roughly 25%-30% in the 2<sup>nd</sup> quarter.
- The headline unemployment rate has jumped from 3.6% three months ago to 14.7% and is estimated to increase to over 20% during the month of May.
- The price of WTI crude oil has collapsed from over \$60/barrel at the start of the year to near \$30's/barrel.
- The government response has been historic with massive monetary stimulus and will undoubtedly act as a tailwind toward recovery – the Federal Reserve indicating “whatever it takes.”

Now what?

With many states beginning to phase in a gradual opening of business and commerce with workers returning, some of the questions to be answered are:

- Is there a resurgence in virus cases that slows or derails progress toward activity?
- What are the real statistics around the virus, vulnerable populations, immunity, treatments and vaccine potential?
- What are the short term, medium term and lasting effects from the global economic shutdown?
- Are some behaviors changed longer term and what are the implications?
- Will the recovery be V, U, L or W shaped or a combination with some industries or parts of the economy experiencing a sharp V-shaped recovery while others experience a longer U or L-shaped recovery.
- What type of recovery has the market priced in?

There are green shoots of recovery appearing, pointing to pent up demand from consumers such as a sellout for the opening of Shanghai Disneyland in minutes and even Carnival Cruise lines bookings soaring with the announcement of its relaunch. We believe the recovery to pre-pandemic business



## Commentary

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activity levels for many industries could take months or even years. Despite the market rebound and green shoots, investor sentiment continues to be remarkably low. Sentiment is oftentimes a contrarian indicator of market direction.

While the dire levels of unemployment are likely to improve significantly as commerce restarts and workers are rehired or return from furlough, it is likely there will be a persistently high level of unemployment for a longer period of time.

We have used the recent volatility to purchase some higher quality investments we believe are on sale. While we believe there are many significantly undervalued opportunities for investors, volatility will likely continue to be high.

We are generally holding a higher level of cash in portfolios due to the uncertainty. To highlight the uncertainty, many companies are not offering guidance on the outlook for their business and earnings. We may have seen the market lows but could experience some additional weakness as news emerges on the resumption of activity and the lasting damage done to the economy.

Despite changing market dynamics and price volatility this year, the broad investment goals of investors generally do not change in a short period of time. While the markets are certainly volatile, we continue to invest for the goals of retirement, to fund college tuition, to save for down payments, to maintain or improve standards of living, and more. During times like this it remains important to follow a disciplined investment approach in order to achieve those goals.

We thank you for your continued partnership with us. Our office is scheduled to begin a phased reopening on June 1<sup>st</sup>. We hope to see you soon, whether it is virtually or in person.

Respectfully,

HORAN Capital Advisors

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