Quarterly Newsletter

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DELTA FINANCIAL ADVISORS
Investment Counsel

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Market Comments

Our last newsletter had barely been written when the world suddenly changed. The last sentence from this same section in that newsletter actually read: “Bull markets don’t die from old age. They die from fear, mainly of recessions.” Well, the recession is here, and the bull market, at least temporarily, has hit a brick wall. This recession is global and could potentially be the worst since the Great Depression. We are not necessarily ringing that alarm at this point in time, but economic projections in this environment are subject to a large margin for error.

The current forecast is for the U.S. GDP to come in slightly negative for the first quarter and is projected to be down significantly for Q2. Economists are frantically working to get a sense of where things are headed. Current consensus is for the economy to get worse before it improves. The good news is the stock market usually hits bottom before the economy, and some feel that the bottom may have already been reached for stocks. With that said, it is not unusual for that bottom to be re-tested before the next bull can truly take off.

From mid-February to mid-March, the S&P 500 fell approximately 34% from its all-time recent peak, deep into bear market territory. From the end of March through April 10th, however, the stock market did recover a fair amount of that damage. In fact, the week of April 10 was the strongest week for the market since 1974. By the close of business on that day, the S & P 500 was down “only” 13% from the beginning of the year. That is a nice bounce back from the bottom, but it did come with a lot of volatility. On April 6th alone, the Dow Jones Industrial Average was up over 1,600 points, and many recent trading days showed significant swings, both up and down. With the current dividend yield on the S & P 500 of 2.25% vs. the yield on the 10-year US Treasury of 0.74%, stocks have certainly become much more attractive than before this all began.

With the exception of the oil price war, today’s markets are all about the pandemic, the enormous amounts of monetary and fiscal stimulus and the medical race to find solutions for the virus. Trying to time the stock market, and the bottom of a bear cycle, is very difficult, at best. It is often difficult to ride through these types of highly volatile markets, but that is our best advice. Stick with a well-diversified group of strong companies with good balance sheets, in an appropriate allocation for your situation and do not panic. We have been and will continue to add to stock positions during the down days for clients where appropriate and that have idle cash.

	Close	Month	YTD	1 Year
DJIA	21,917.16	-13.62%	-22.73%	-13.38%
S & P 500	2,584.59	-12.35%	-19.60%	-6.98%
NASDAQ Comp.	7,700.10	-10.12%	-14.18%	-0.38%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	0.70%	1.92%	2.41%

Looking Ahead

As mentioned above, forecasting in these types of times is very difficult. The over $2 trillion of fiscal stimulus will have a tremendous positive impact but does come with a price. The enormous levels of our federal deficit will eventually lead to tax increases, but now is not the time to worry about that. The Federal Reserve is using most of its arsenal through its monetary policies on the economy, as well. The current target Fed funds rate is essentially 0% and massive amounts of securities are being purchased to supply liquidity. The Fed is also ready, willing, and able to lend directly to municipalities and some mid-sized corporations. With inflation not currently being a concern, these moves are needed and do not come with as much future economic risk as fiscal policy moves.

The employment situation is indeed very difficult and getting worse, with some projections exceeding 20 million unemployed. This also brings into question exactly how much productivity is lost, if any, with employees working remotely and how, or if, that will affect the GDP. Businesses are finding it equally difficult to plan. Many publicly traded companies are sharply reducing revenue and earnings estimates, are suspending earnings’ guidance, and are considering dividend cuts. There are also increasing concerns of corporate and municipal loan defaults and bankruptcy filings. Although it has now settled down some, the bond markets recently experienced some significant pricing issues with lower liquidity coming from, among other things, a flight to quality.

Consumer confidence is falling but is not collapsing. The economy and the markets will need future consumer spending to help businesses survive, especially small companies. The Paycheck Protection Program (PPP) will provide some short-term relief for businesses with 500 or fewer employees, but small businesses will need everyone’s help to get through this. The future of the economy depends on the changes of the virus outbreak situation and solutions for it. First quarter earnings reports are coming out as this is being written. We will be reading these carefully and looking for opportunities and/or potential concerns. The second quarter is likely to continue to be very bumpy, with expected sharp swings in stock prices.

There have been some unexpected good consequences from all of this. Tax filing and estimated payment dates have been delayed. Additionally, the big auto insurance companies have begun announcing premium discounts and rebates due to far fewer drivers and accidents on the roads. The IRS has also suspended all Required Minimum Distributions (RMDs) for all retirement type of accounts, including Inherited IRAs. Many people have also had the ability to refinance their mortgages due to recently set records of low interest rates.

As always, please stay safe and healthy. If you have any questions or concerns, please do not hesitate to call or email us. Thank you.

701 Poydras Street
Suite 350
New Orleans, LA 70139

www.deltafinad.com

Office 504-522-9019
Fax 504-522-9676
Toll Free 888-522-9019