

OUR PERSPECTIVE ON COVID-19 AND THE MARKETS



TRUXTON TRUST
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The World Health Organization (WHO) has declared the COVID-19 virus a global pandemic and President Trump has restricted inbound travel from most European countries. This represents a sobering escalation in the response to what had been a simmering concern. We don't know the precise reasons and have no qualifications to make forecasts about the intensity and duration of future outbreaks beyond what we have all read, but we do respect the severity of the situation. First and foremost, we hope that everyone stays safe and resists the impulses to panic. We wish those trying to make their way home the best and express our support for those who will be on the front lines should outbreaks occur in the United States. In a crisis, the behavior of citizens will determine outcomes. We are hopeful that Americans' performance will reflect well upon us; that we will respect and look out for our neighbors.

The stock market has entered bear market territory for the first time since the global financial crisis. The fall has been sudden and alarming. There is the risk of sickness itself and the discontinuation of activity, which can have cascading economic effects. The stock market reflects this risk. Investors are assuming that quarantine and social distancing could have similar effects on our economy as they have had in China and Italy. The uncertainty has hurt equity markets and will continue to do so until there is some visibility. While we are concerned near-term, we do not believe that the value of companies has changed so significantly and see this as a buying opportunity for the long-term. This does require faith in our institutions and fellow citizens, but history tells us that such faith is warranted. The value of a company has much less to do with what the company will earn this quarter or this year than with the ability to continue to deliver earnings over future periods. That said, our clues about future potential typically come from periodic updates. When all you hear is uncertainty, it is unsettling. We understand.

We do believe there are several things to keep in mind at times like this. First, your allocation between stocks and bonds was not an accident. At Truxton, we work to identify the risk tolerance that is appropriate for each client's circumstances and use investment grade bonds to the degree necessary to mitigate losses and provide liquidity during downturns. Investment grade bonds have done their job through this downturn. Second, it is important to hold on to equities or add to them. An appropriate asset allocation should put each client in a position to do this. Most of the market's biggest positive days are either mixed in with painful drawdowns or immediately follow them. Selling can cost you. Finally, we invest in stocks for the simple reason that we need our savings to grow at a rate faster than the rate of inflation so that we can maintain our standard of living. Over short-periods and even some intermediate periods, the results can be disappointing; however, over the long-term stocks have delivered returns well in excess of the rate of inflation. Whatever the magnitude and duration of the disruptions in response to the coronavirus, we do believe that these disruptions will be temporary with a return to our normal routines at the end.

We wish you and your loved ones well during this confusing and difficult time. If you need us, we are here. Please call anytime. ■

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