



ECONOMIC AND EARNINGS APOCALYPSE BEGINS

The U.S. economy contracted -4.8% in the first quarter in a report that its publishers note should be taken with a grain of salt. According to the U.S. Bureau of Economic Analysis, "The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the first quarter of 2020 because the impacts are generally embedded in source data that are incomplete and subject to updates." Nonetheless, looking at the detail of the first estimate, the 4.8% contraction was driven by weakness in almost every category of expenditure/investment. Personal consumption dropped more sharply than expected, down -7.6%, the worst decline for consumer activity since 1980. Business investment fell -8.6%, exports dropped -8.7%, and imports pulled back -15.3%. On the positive side of the ledger, government spending increased and housing was, prior to the virus, on fire. Unfortunately, as seen in the more timely housing data, that momentum was abruptly halted when people were told to remain at home. Going forward, while the first quarter contraction was remarkable in how sharp and abrupt it was, the report is likely to see significant revisions and the second quarter GDP contraction (expected to be between -25% to -35%) is likely to make the first quarter report look mild.

Also bleak have been first quarter earnings reports, as we close the week with almost half of the companies in the S&P 500 reporting. Results show an overall decline of -15.8% based on estimates and actual reports, with communications services, utility, and consumer staples companies on the positive side against sharply negative results from energy, consumer discretionary, and banking sectors. Second quarter results are expected to be far worse, declining -32.2%. And yet, stock markets are closing out the month on fire, in a sharp reversal of March's dramatic carnage. We have the Fed and fiscal stimulus measures to thank for the market rebound, and growing optimism over reopening prospects and potential therapeutics (thanks to positive results from Gilead's remdesivir trials) that have put economic and earnings carnage in the rear view mirror, at least for now.

This morning, President Trump has made headlines by claiming that China's delay in alerting the world to the spread of the virus was politically motivated and designed to boost the election chances of his political rival, Joe Biden, at the expense of his own. President Trump's criticism of China has been consistent - and increasingly sharp - in recent weeks. He has questioned the accuracy of the death toll there, and even said he was looking into suggestions that the virus originated in a laboratory in Wuhan. But this is the harshest criticism of its kind so far. For its part, China has used its relatively quick containment of COVID-19 as a propaganda tool, touting the superiority of its political and economic model. Sadly, even a pandemic—by definition, a global event—is unable to incite the world's leaders and institutions to collaborate and coalesce to adopt a "we're in this together" approach. Instead, we have more recriminations and opportunism.

As investors, our task is to balance the bad economic and earnings data of today with the hope of a better day tomorrow, driven by the benefits of the shock-and-awe stimulus efforts at work to support the sagging economy and the strong leadership ability of the management teams of the companies in which we invest. After all, we are not buying shares of GDP, or private equity stakes in the political leaders of the hour. Our conviction lies in our belief in the enduring business models of the investments we so carefully select for the portfolios you have entrusted to us.

Thank you for your interest in our weekly investment commentary. If you would like to speak personally with a member of our team at any time, please click [here](#).

THE LOWDOWN ON LIFE INSURANCE GIVEN COVID-19

The economic damage inflicted by COVID-19 and the government's response to it have had an impact on numerous personal financial planning matters. This week we discuss how it is a good time to consider a review of life insurance coverage and existing policies in light of low interest rates, volatile market returns, and coverage considerations that the pandemic raises.

Click [here](#) to read more.

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