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Challenges, Thoughts, and Hope

The global virus-fighting lockdowns and closures of the developed world have resulted in a decline in the S&P 500 TR Index of (-19.6%), the MSCI EAFE Index (USD Net) of (-22.83%), the MSCI World Index (USD Net) of (-21.05%) in the first quarter of 2020. The IHS Markit gauge of services slid 10.3 points to 39.1 in March 2020. With services comprising almost 90% of the U.S. economy, the smallest percentage of Gross Domestic Product since 1947, the slump in the index highlights the extent of the shock to the nation's output as retailers, restaurants, and other service providers shut down in an effort to contain the outbreak. Similar measures for Japan, Germany, the U.K., France and Australia were also at all-time lows. While registering a smaller setback than the services gauge, the IHS Markit Index of U.S. manufacturing dropped in March to 49.2, the weakest since August 2009. The economic stoppage and social distancing are also impeding global manufacturing and are expected to have an even bigger impact on the economy in the coming months. As businesses close their doors, and world economies grind to a halt, millions of people will be unemployed as we already have begun to see.[1]

The unprecedented economic impact of the virus illustrates why the central banks and governments have acted so swiftly to change policies to support their economies. Alleviating the hardship from job losses is essential to keep consumption from falling sharply as is relieving borrowers' distress to maintain sufficient financial system liquidity. The goal is to keep the effects of a savage short-term recession from weighing on potential output into the long term. By alleviating the household hardship resulting from the sudden stop in income, these policies raise the odds of a powerful wave of pent-up demand being unleashed once the virus is contained.[2] Extraordinary times require extraordinary measures. Unlike the medical effects of the virus, the economic impact is easier to predict and overcome. The global financial crisis of 2008 transformed the economy and financial markets offering governments unlimited financing with zero interest rates, low inflation, and a tolerance for monetary and fiscal experimentation.[3]

Martin Investment Management, LLC believes that its proud 32-year history of equity investing over time is the result of intense focus, sincere efforts, and intelligent execution. Over this period, we have navigated successfully through bear markets, as well as bull and side-ways markets Wise choices from many alternatives, not chance, determine our investment philosophy. The pandemic of Covid-19 has brought the world a deadly disease and unpacked a cascade of frightening changes in a relatively short time. Daily physical and psychological regularity has been shattered. The virulent disease is forcing us to deal with experiences we normally consider beyond our control.

We recognize that this turn of events is significant for your investments, but we are fully operational and committed to navigating your investments through these difficult times and organizing our thoughts for future investments. After the initial shock of the virus, there will be smaller shocks to the markets that we expect to be inconsequential as panicked sellers and greedy speculators try to find the market bottom. While the present equity volatility is unnerving, a long-term investment horizon decreases the effects of market volatility. The eleven-year bull market following the 2008 bear market serves as an example of the benefit of disciplined long-term investing. We believe that stocks generate wealth in the long run. As the supply of shares have decreased substantially over the last twenty years, their demand continues to grow.[4] Panic often creates mispricings. We believe there will be positive outcomes of keeping fully invested. During this time, we will continue to focus on capital preservation alongside the long-term opportunities.

The companies in our portfolios are feeling the impact of the new economic landscape in a variety of ways, as supply chain disruptions and falling demand intensify and earnings decline. Even though our portfolios hold positions in healthcare and household products, the most important factors continue to be the liquidity, positive cash flow, and low leverage of the underlying companies. We cannot emphasize enough the importance of these three aspects of our investment philosophy which date back to the founding of our firm. Prospects are challenging for 2020 as the world absorbs the pandemic and begins to recover as the physical challenges of Covid-19 abate, but we believe the monetary and fiscal efforts will contribute to a swifter recovery and avoid a deeper recession. This is a fluid situation, and we will continue to evaluate your investments on an individual basis.[5]

Our positive thoughts for the well-being of you, your family, friends, and colleagues during this difficult time!

1. Golle, Vince, "Virus Walloped U.S. Economy in March, IHS Markit Gauge Shows," *Financial Advisor,* March 24, 2020.
2. BCA Research. *Daily Insights,* March 25, 2020.
3. Kaletsky, Anatole. "The Daily", *Gavekal Research*. March 16, 2020.
4. Kelly, Dr. David. "Long-term investing in light of COVID-19", *Market Insights Webinar*, March 30, 2020.
5. Doll, Robert C. "The Recession Will Be Deep, But Hopefully Short-Lived" *Financial Advisor*, March 23, 2020.