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## Sledgehammer!

### Global Markets and Regions

	1st QTR	2020 YTD
US	-19.80%	-19.80%
Developed Europe	-24.30%	-24.30%
Asia	-17.70%	-17.70%
Emerging Markets	-23.60%	-23.60%

### US Markets

	1st QTR	2020 YTD
Dow 30	-22.70%	-22.70%
Large Cap Cos.	-20.33%	-20.33%
Mid. Cap Cos.	-29.16%	-29.16%
Small Cap Cos.	-30.70%	-30.70%
Bonds	2.67%	2.67%

Sledgehammer is defined as a large heavy hammer that is wielded with both hands, used with heavy-handed directness or hard hitting force. Sledgehammers are used to break up large objects into small objects or pound things into the ground. Given what we have seen happen in the last few weeks, sledgehammered may be an understatement. The sudden emergence of a global pandemic that has the potential to kill millions has brought most of the world to a standstill. The governments of the world have taken a sledgehammer to their societies and economies and there seems to be no turning back. They are betting that reduced social and economic interaction will slow or stop the pandemic and limit the human toll, which has already been substantial. Our government has required that 70% percent of the real economy shut down. There is no playbook for this kind of policy. We are making it up as we go.

Just a few short months ago, the markets ended 2019 with solid returns. Valuations may have been on the high end of normal ranges, but optimistic assumptions about economic prospects seemed to justify the numbers. There were concerns about corporate earnings growth not accelerating. Overall economic growth (GDP) was positive and forecast to continue on an upward path, but the rate of growth was below long term trends. Globally, growth was sluggish at best. US multinational companies that generate a large portion of their earnings outside the US need that steady positive growth.

The reset with China, the world's second largest economy, was progressing. It was not a smooth process, but it was evolving in a manner everyone could adjust to. While Wall Street wanted better topline growth numbers, Main Street America was doing quite well. Unemployment was at generational lows, wage growth was positive and steady and low interest rates made home buying an attractive prospect.

And then...the sledgehammer pandemic! To add insult to injury, Saudi Arabia and Russia decide to initiate an oil price war. Some may think that lower energy prices are a net positive resulting in lower fuel costs. Maybe so, but when the energy industry represents 8% of the US economy and about 5% of the S&P 500 and also supports 10 million jobs, there is another side to the story. Mr. Market was just beginning to become aware of the pandemic when this happened.

The Government's response has been nothing short of EPIC! They have shut down the economy for what could be months on end. The result has been the fastest 30% stock market decline in history as well as the fastest flip from record highs to a Bear market in history. Unemployment could reach Depression era levels very quickly. The biggest initial hit, other than the stock market, will be small business. There are over 30 million small businesses in the US. They employ roughly half the country. The restaurant industry alone employs over 12 million people.

On the other hand, the Government's response to the shutdown order has been equally EPIC! Two and a half trillion dollars has been pledged to plug the gap created by this shutdown. They are working on an additional two or more trillion dollars of infrastructure expenditures. The US GDP is about 20 trillion dollars annually. This is more than "stimulus". This is an "all hands on deck" effort intended to plug the breach.

The bottom line for the economy and by extension, the market is the sooner we re-open the economy the faster we will recover. There will be a quasi-permanent reduction in business. A certain number of businesses will shut their doors and never reopen. The longer the economy stays closed, the longer the list of shuttered business will be. We could quickly recover the lost activity or we could stagnate and linger in a state of reduced economic activity. We know things will be different. Of course the pandemic may have other ideas. Let's hope we can get our arms around this crisis sooner rather than later and get back to our "new normal."

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