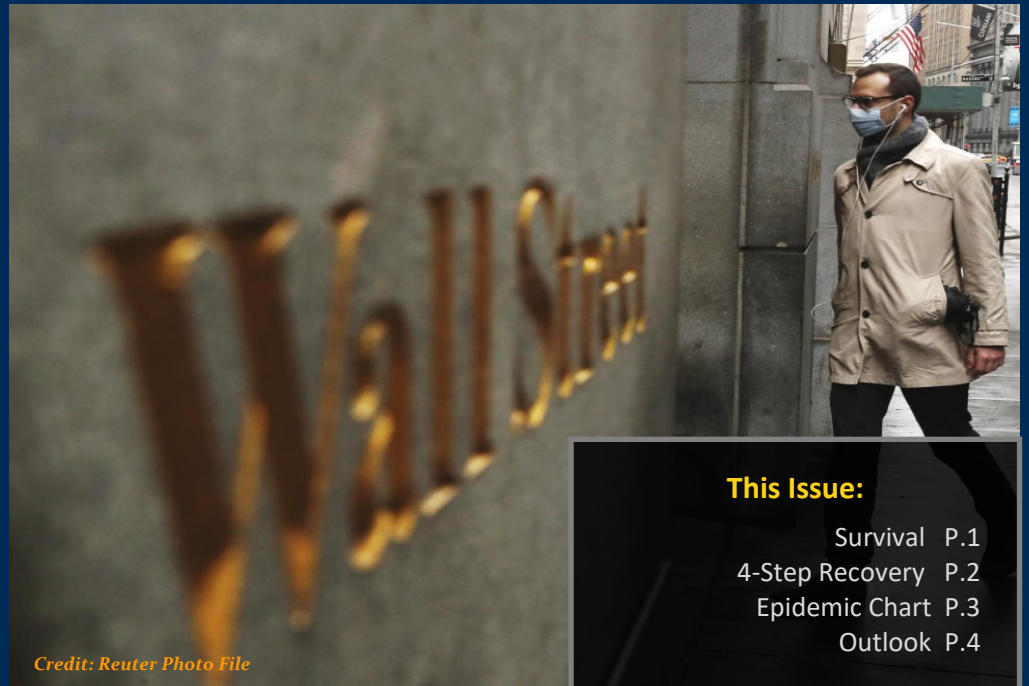




Southern Capital Perspective

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We Know that the US Can Survive the Virus - But Can We Survive the Cure?

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Throughout history viruses come and go. Some are more serious than others causing much more suffering and death, but they all eventually pass through the system. It is also noteworthy that the economy withstood the hit each time and then recovered (*see graph on page 3*). This time around, the approach to fighting the virus is radically different. Shutting down most economic activity is doing great damage and will require extraordinary measures to recover. However, the answer to the question posed in the title, is still YES.

The radical steps taken to control the virus were probably necessary considering the politics of the day along with the impact from social media. In the past, viruses were considered to be like the flu – something that had to be endured until it ran its course. This time the nations of the world, including our own, have “pulled out all the stops” and are spending trillions of dollars to combat Covid-19. The top medical specialists tell us that if we did not wage this costly war, the result

SCS COVID-19 Precautions

Please be aware that the associates at Southern Capital are taking all precautions during the Covid-19 crisis. Some of us are working remotely and rotating in and out of the office. We continue to have a presence at the office because financial services are considered to be “essential” and we need to be able to deposit checks for account contributions and receive important documents plus deliveries in a timely manner. We have ceased in-person meetings during this time and are conducting all necessary meetings virtually by phone, Skype, or Zoom. Be assured that we will continue to be responsive to you,

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would be 2.2 million US deaths versus 100,000 to 240,000 with the present approach. Of course, every life has inestimable value. Our political leaders in both parties have concluded that going “all in” is the only rational response and have put us on this path, therefore we must do battle on these terms. Yes, we will survive the cure and win, but the financial cost in terms of deficits and debt will be very steep.

It is likely that the federal budget deficit will explode - Morgan Stanley predicts that the deficit could hit \$3.7 trillion in 2020 and an additional \$3 trillion in 2021. Remember way back in 2008 and the response to the “Great Recession.” All of us were standing aghast when there were several years of \$1 trillion deficits! Also, at that time the Federal Reserve Board (FED) injected money into the system called Quantitative Easing (QE) that amounted to about \$3.5 trillion over a few years. Presently, the FED is committing itself to unlimited QE which could mean \$5 trillion, \$10 trillion, who knows? The seeds are being sown for inflation. If and when inflation rears its ugly head, the FED will have a very difficult task.

The traditional method for fighting inflation is to raise interest rates and to take money out of the system called Quantitative Tightening (QT). However, with a federal debt likely to be in the \$26 trillion range, every time interest rates go up by 1% it would cost the federal government an additional \$260 billion in interest. Also, taking money out of the system would mean that there are fewer dollars to be a source for that extra \$260 billion interest payment. The bottom line is that all of this money creation and deficit spending will enable us to win this battle but will put us in greater danger of losing the longer-term economic war.

The Four-Steps Required For Recovery

This is an update to the recent e-mail communique that we sent out on March 25th.

1. Monetary policy – as we said previously the FED has stated that they are standing by with unlimited QE. They will aggressively add money whenever it is needed. This box is checked.
2. Fiscal policy – This one is still a work in progress, although the politicians, the Administration and the financial institutions are trying to move forward with great haste. The bureaucratic nature of government and large institutions generally slows things down. The small business loan program seems to be the exception. It was reported that the very first day of implementation, over three billion dollars was distributed to approximately ten thousand small businesses. The \$1200 automatic deposits to individual's accounts is about two weeks away. Also, other aspects of the CARES act are in the queue. It is imperative that all delays get resolved so that people get the money sooner when it is needed most. There is also talk of a Phase 4 which is being discussed as a \$2 trillion infrastructure package. This box gets a partial checkmark because they passed the CARES act and the critical implementation (getting the money into people's hands) is beginning to be accomplished.
3. Medical Progress in dealing with Covid-19 – We need some good news on this front, but we did not get it. The President announced

that we are in for two weeks of difficulty and that the economy would not start to reopen at Easter, but instead it is targeted to be April 30. There is potential good news with some of the development of new drugs in the bio-tech area as well as an existing drug for the treatment of Malaria but nothing is definitive at this time. The most exciting news is in the area of rapid, inexpensive and abundant testing which could clear many people to return to work and to normal activities.

4. Global Recovery – Virtually every nation in the world is being confronted by this virus and are at varying stages of getting through it. The good news is that most of them are using all of the monetary and fiscal tools they have in the

“whatever it takes” approach. Medically many of these nations do not have great capabilities of their own and it will be necessary for the US to help them based upon what is learned by dealing with the virus here at home. This fourth (global) step will be the crowning aspect to a US recovery based on steps 1-3 and will provide longer-term prosperity.

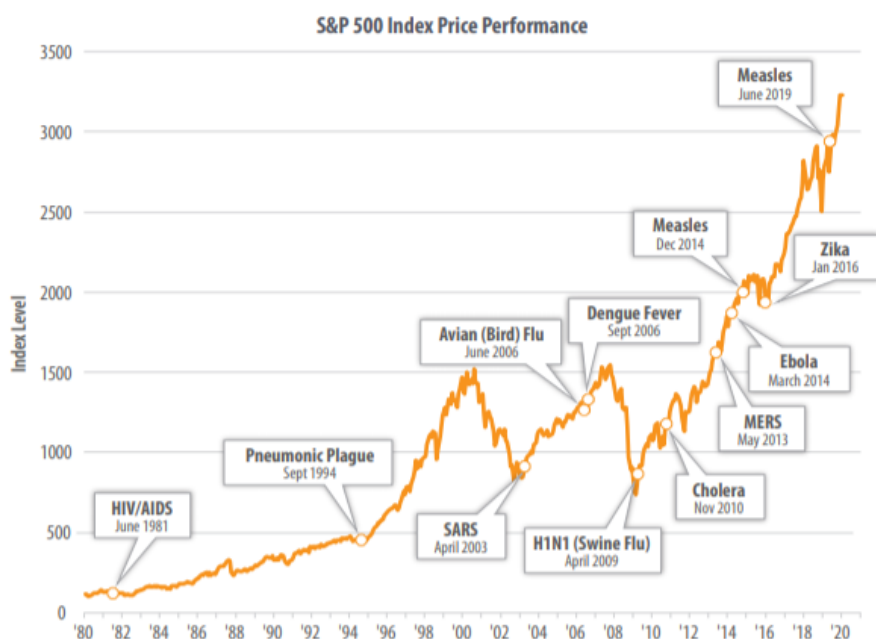
The changes since we first sent this out are: a) the fiscal policy is being enacted – the money is beginning to flow to the small businesses. And b) the medical area – intensive drug research along with actual drug trials and the development of testing with more rapid results. These are positive developments that bring us closer to the turnaround.

Epidemics and Stock Market Performance

Since 1980

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There are many factors that can impact stock market returns, but one concern of investors today is how the stock market will be impacted by a major epidemic or outbreak. Below we look at the historical performance of the S&P 500 Index during several epidemics over the past 40 years. We believe looking at the market's overall resiliency through several major epidemics can give us perspective on the benefits of investing for the long-term.



Epidemic	Date	S&P 500 6-Month % Change	S&P 500 12-Month % Change
HIV/AIDS	June 1981	-6.6%	-16.5%
Pneumonic Plague	Sept 1994	8.2%	26.3%
SARS	April 2003	14.6%	20.8%
Avian (Bird) Flu	June 2006	11.7%	18.4%
Dengue Fever	Sept 2006	6.4%	14.3%
H1N1 (Swine Flu)	April 2009	18.7%	36.0%
Cholera	Nov 2010	13.9%	5.6%
MERS	May 2013	10.7%	18.0%
Ebola	March 2014	5.3%	10.4%
Measles	Dec 2014	0.2%	-0.7%
Zika	Jan 2016	12.0%	17.5%
Measles	June 2019	9.8%	N/A*
Average Price Return		8.8%	13.6%

Observations

- 6-month change of the S&P 500 Index following the start of the epidemic was positive in 11 of the 12 cases, with an average price return of 8.8%.
- 12-month change of the S&P 500 Index following the start of the epidemic was positive in 9 of the 11 cases*, with an average price return of 13.6%.

Source: Bloomberg, as of 2/24/20. Month end numbers were used for the 6- and 12-month % change. *12-month data is not available for the June 2019 measles. **Past performance is no guarantee of future results.** The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Returns are based on price only and do not include dividends. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial advisors are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

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Outlook

The first quarter of 2020 was the ultimate stock market rollercoaster. The market increased from the beginning of 2020 until Feb. 19 when it hit its all-time high. From there, about one-third of the value was lost by March 23 before recovering to finish down about 19% for the quarter. One and two thousand point moves in both directions of the Dow Jones Industrial average became almost commonplace. Covid-19 has caused everything to go crazy and all the norms to be abandoned.

Looking forward, we have to divide the viewpoint into three different time frames. The near term- the President said that the next two to three weeks would be difficult in terms of the virus and the death toll. That could mean more downward pressure on the market, but remember the market is mostly trading on what it sees coming on the horizon not what is presently happening. Therefore, it is conceivable that the bad news has been largely discounted and the market is building a base. No one can know for sure but there is a positive sign: the market volatility index has declined substantially which is usually indicative of calmer and more orderly markets.

The intermediate term – three to twelve months should be enough time for us to get through this crisis and come out on the other side. The leading medical experts indicate that the curve that the virus is following in other nations, and is likely to track similarly in the US, should get us through in one to two months. The market probably will begin its recovery before the medical problem is completely resolved. Also as the massive amounts of monetary and fiscal stimulus begin to impact the economy, they will have a big influence on the markets. This stimulus will be coming from nations all around the world, not just the US. Collectively, the central banks and governments of the world will create a tsunami of liquidity (money) that is likely to flow into the equity markets.

This view of the intermediate term could be too optimistic if: 1) the medical experts have underestimated the length of the virus curve, or 2) if the extended shutdown of the economy in the US and abroad does more long-term damage than is expected.

The longer-term – the years to come is our greatest concern coming from the reaction to this crisis. As discussed earlier in this newsletter, inflation and the ability to handle all of the debt being created is cause for real concern. We don't need to prepare for this eventuality at this time, but we will in the future if events continue to proceed as they are presently.

COVID-19

What We are Doing at Southern Capital

(continued from first page)

that you can reach any of our associates by phone, and that you will continue to receive the personal service we are accustomed to delivering.

Our monthly newsletter is one of our favorite ways to communicate with you. Last month, during extraordinary times, we sent out a series of six email blasts that collectively made up our March newsletter in an effort to be as timely as possible in our response to the markets. Earlier this month, we sent out another and will continue to communicate this way as needed. All of those communications are posted on our website blog in case you missed any of them. This month we go back to our regular monthly edition for a big picture overview written by Terry, and we are sending it both by mail and electronically.

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