

Crossvault Capital Management, LLC  
7373 Broadway, Suite 107  
San Antonio, Texas 78209  
ph 210-223-6929  
fax 210-223-5852



1Q2020

How quickly the world has changed in a few months. Noted economist, Ed Yardeni, appropriately labeled this period of time the “Great Virus Crisis” in mid-March after the scope of the global pandemic became known. After the S&P 500 made an all-time high on February 19, it closed the 1<sup>st</sup> quarter down 19.60%. There is no asset class that has escaped the extreme sell-off and volatility. The 10-year U.S Treasury note touched 0.35% on March 9 and closed the quarter at 0.70%, and the Dow is down 23.2% year to date. Crude (WTI), has been in a bear market all on its own. This was caused by a price war between Saudi Arabia and Russia combined with demand concerns from a global economic downturn. The price of oil settled at \$20.40 per barrel at quarter end.

It has been more than ten years since the financial crisis brought global economies to a standstill. The current shock is a health crisis that has turned into a global economic crisis as whole cities and countries are locked down to prevent the spread of Covid-19. Prior to the sudden cessation of economic activity, the global economy, not just the U.S. economy, was improving and gaining momentum. The common thread, as with any crisis is the length and severity of the effects, and we are still seeing the impact of this uncertainty in global equity and credit markets. The Fed has acted more quickly than ever to inject liquidity and stability into our markets. The \$2 trillion economic relief package from Congress is more stimulus than we have seen in any past economic crisis, and they continue to promise more relief as needed.

The news changes every day, and at some point, it will change from being predominantly negative to showing some signs of progress on both mitigating and curing this new disease. Because of this, we think it is important to consider some positive developments that will come from this which will inform our decisions in your portfolios. First, U.S. companies will continue to migrate their manufacturing operations back to the United States. In addition, it has become clear that all countries, not just the U.S., will have a stronger, comprehensive strategy to combat any future crises. Hence, we are seeing more connectivity than ever between doctors around the world as they work together to resolve this health crisis and find a cure for the virus. Whether in crisis or a more normal environment, areas of strategic investment for Crossvault include cloud infrastructure, information technology, healthcare, faster and more reliable communications, and defense.

As we go about doing things we have never done before—social distancing, standing in line to enter a grocery store, moving to on-line learning and medical consultations—we will adapt to these new challenges just as we have always done. While we seek to be realistic about how the health crisis affects our economy and how that relates to your investment goals, we are also optimistic we will see a return over time to a sound and robust environment given low interest rates, a stimulative Federal Reserve, and our history of innovation and resilience in the United States. We offer our thoughts and prayers for those who are sick and those who are on the frontline to assure our health and wellness. During this period of social distancing we are reminded of what is important as we connect closer to our family and friends, rely on the kindness of others, and reach out to help others in our community. We encourage you to be in touch by phone or email until we are able to see you in person.

Laura Ehrenberg-Chesler

Marilou Moursund, CFA

Sarah Calvert Doerr