



Stand pat into quarter-end

Now is not the time to rebalance, Federated Hermes strategists say.

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As we approach the end of the first quarter, the Federated Hermes PRISM[®] Asset Allocation Committee is advising clients to stand pat with their current equity allocation rather than rebalance, despite the fact that the S&P 500 has plunged by 35% from record highs over the past five weeks.

Officially, the committee has a 7% equity overweight on the books for its moderate growth model portfolio. But the equity market's sizable bear-market collapse since Feb. 19 has effectively shrunk that allocation to neutral. We would encourage clients to resist the urge to rebalance at this time, and instead maintain that neutral equity allocation while adopting a mantra of patience and vigilance.

The coronavirus' global pandemic has created a complete lack of visibility at present. From a technical standpoint, the rapid decline in stock prices has sliced through support levels like a hot knife through butter, with no clarity in sight. Fundamentally speaking, the global pandemic has forced the U.S. and the

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rest of the world to shelter in place, effectively shutting down the global economy. For that reason, many companies have suspended their revenue and profit guidance for 2020, which makes establishing fundamental targets nearly impossible.

Our Covid-19 analytical framework monitors policy developments in three critical areas: monetary, fiscal and social.

From a monetary policy standpoint, the Federal Reserve is clearly all in, having cut interest rates to nearly zero and pledging unlimited quantitative-easing asset purchases. Social distancing and drug-development inroads by the pharmaceutical industry provide hope that the trajectory of coronavirus illnesses may plateau here in the U.S. by the end of April, rather than spike into August or beyond.

But fiscal policy gives us pause. Congress appears more interested in playing political games than passing the aggressive Phase Three legislation necessary to protect both workers and businesses until we can get over the coronavirus hump. Much like the passage of Troubled Asset Relief Program during the financial crisis in 2008, the timing of this uncertainty makes us hesitant to act.

TAGS

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EQUITY

MARKETS/ECONOMY

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