Weekly Capital Market Comments

July 31, 2020

NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

End of the Beginning

The United States is 94 days away from a Presidential Election. At one point, President Trump seemed to have had an unsurmountable advantage over any potential Democratic nominee: a robust economy. Financier and businessman, Tom Steyer, understood this better than most. At a Democratic debate held in Manchester, NH, he articulated this concern, evoking the now-infamous Carville phrase, "It's the economy stupid," pointing to the difficulty in defeating an incumbent US President with a strong economic tailwind. But after a few short months, that are now feeling like an eternity, the US is in the midst of the worst economic recession since the Great Depression, driven mostly by a self-inflicted financial lockdown resulting from a global pandemic.

Yet at the same time, the equity markets remained resilient, with certain sectors reaching all-time highs. The S&P is once again in positive territory for the year, following a steep 34% decline between February 19th and March 23rd. Rallying cries following "perceived" green shoots helped drive this dramatic market rebound, but as our readers know, we were, and remain less convinced of a "V" recovery for both the market and the economy. And while some investors recently moved to the sideline as COVID flair-ups emerged following the reopening of individual states, we continued to communicate to clients, that this was simply the "**end of the beginning**."

We believe COVID simply accelerated an eventual recession, following 130 months of unprecedented economic expansion and 133 months of a bull-market run. More so, much of the recent market snapback was due to a few individual equity names. We have pointed out in several weekly notes the impact the "fab-5" (Amazon, Apple, Netflix, Microsoft, and Google) has on the S&P 500. These five companies represent over 22% of the equity market capitalization of the S&P 500. Further, they are up by 33% YTD, and higher by 58% since the March 23rd lows. So as demand for video entertainment and streaming is pulled forward, new entrants emerge in the video conferencing space, and increased scrutiny follows social media and technology platforms currently protected by Section 203, we wonder if Thursday's earnings bonanza by "big-tech" supports continued price appreciation. In our opinion, the economy is in much more dire shape than FANG stocks would suggest. **Even as positive COVID trends emerge, we do not see the proportionate response in sectors and industries most impacted, perhaps because the 2020/21 recovery may be fully priced into the market.**

In the charts that follow, we attempt to illustrate this. In each case, we plot the total return of a sector/industry or investment style on the left axis going back about 30 days, and the daily 10-day average change in US COVID hospitalizations, on the right axis. We'd expect that if the economy is poised for a snapback and the equity market has more room to run, as COVID hospitalizations shrink, those sectors/industries or investment styles should enjoy continued demand and price appreciation.

What we found was that while FANG stocks (think of the "fab-five"), held their value, they didn't show any significant increase in value as hospitalizations decreased, **perhaps because several of these companies rely on the pandemic for demand**. When we compared value and growth stocks, we found that while value outperformed (caught up to) growth, which perhaps is foreshadowing an economic recovery, there was little differentiation in net returns during the measurement period. **Most interesting was that stocks relating to air-travel (airlines, airports, manufacturers), deteriorated, even as COVID news turned positive**, while leisure (think cruise ships/movie theaters), food and beverage names (think food processing/liquor distributors) improved slightly. At the same time, gaming-related stocks hooked up somewhat over the last couple of days, but these types of companies represent less than one-half

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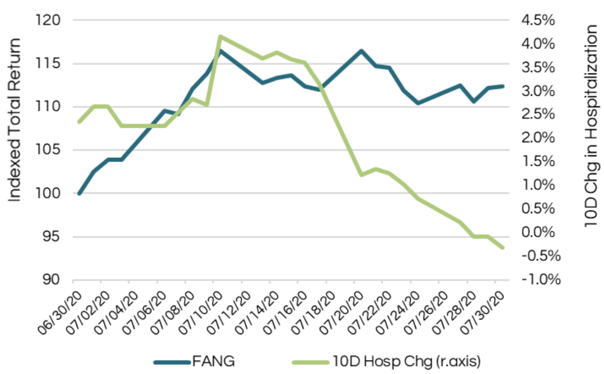
of one percent of the S&P 500. Finally, there was no noticeable difference between cyclical stocks and defensive stocks.

So as we finished this note early Friday morning, US S&P Futures were up, but general market breadth turned negative after the open. Our more conservative "W" trajectory expectation for the market and anything but a "V" recovery for the economy remains in the minority. With the latest round of COVID/unemployment stimulus more hawkish, we believe discretionary spending, retail sales, and overall consumer confidence will wane in the near-term. As August has typically been a volatile month for equities, we continue to suggest investors remain more conservatively positioned, but not entirely void of equity exposure. We are confident that science will lead us out of this human tragedy and market dislocation, and to bet against science or technology in the long-term, is like picking up pennies in-front of a steam roller.

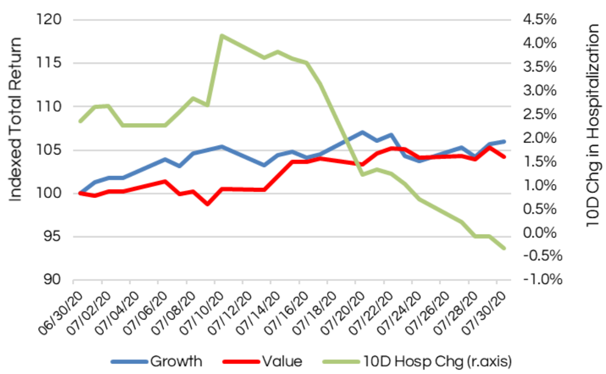
We'd love to hear your thoughts.

FANG Stocks Stay Resilient But Don't Rip



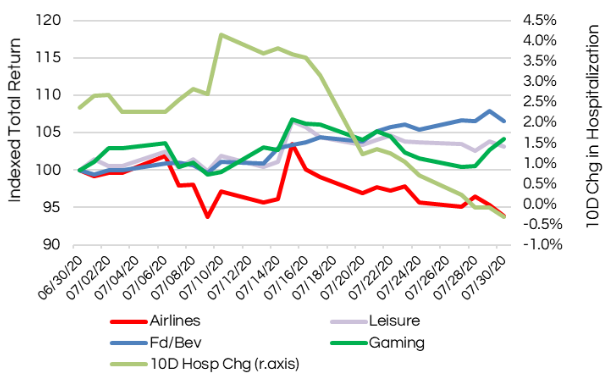
Source: NEPCG and FactSet

Value Stocks Catch Up To Growth



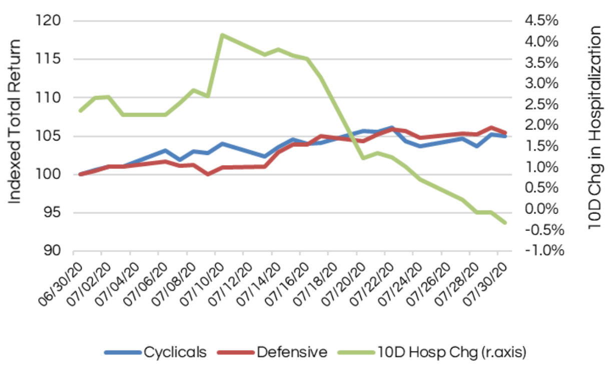
Source: NEPCG and FactSet

Airlines Have Not Benefited, Food/Beverage A Little



Source: NEPCG and FactSet

Little Difference Between Cyclicals and Defensives



Source: NEPCG and FactSet

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