Weekly Capital Market Comments

April 3, 2020

NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

Keep Calm And Carry On

Easier said than done. Especially given the recent headlines from both an economic perspective and medical standpoint. As a parent of three college-aged children and one-half of a dual-income family, my wife said it best on Thursday, “I can’t believe it’s already been three weeks,” as each of us has our own “home-office” space to listen to lectures or talk to clients. Still, minutes pass like seconds, and days seem like hours. It’s like Groundhog Day, every day.

And yet local and federal government officials are warning in the next 14 to 21 days, many U.S. cities will be dealing with the apex of the COVID-19 pandemic. Recent data supplied by the CDC indicated that there are now over 213,000 confirmed cases (Thursday, April 2, 2020) in the U.S., resulting in over 4,500 deaths. This data implies a mortality rate of over 2%, which in itself is a terrible realization, given the pace at which COVID-19 is spreading. However, it is our anecdotal belief that there are significantly more individuals that are either asymptomatic or cases that have either gone untested and/or have recovered. Now, media outlets are floating the near-term potential development of serology tests. As a result, this could provide a psychological panacea for much of the economic headwinds we are currently encountering. Knowing who was/is infected would go a long way to getting our country back on-line, visiting their local restaurant, or shopping in the favorite store.

From a market perspective, while volatility reached staggering levels last week, it has been encouraging and on the retreat in recent days. All this despite the recent jobs print from the BLS (-700k in March), as well as the addition of 6.7 million initial unemployment claims. And while economic data may get much worse before it improves, recent data (durable goods, manufacturing PMI, Richmond Fed, new home sales, leading economic indicators) has been better than feared. In our opinion, this suggests that the economy through February may have been on stronger footing than our more bearish assessment.

From an asset allocation perspective, we are having increased conversations with clients regarding the benefits of active allocation and active management in portfolio construction. We believe there should be a balance between more expensive active management, and more cost-effective passive investing, especially leading into inflection points. **We continue to suggest that a market bottom is a process, not a price. But we are becoming more optimistic and constructive that as capital markets brace for the apex of a medical crisis, that the makings of a bottom is forming.**

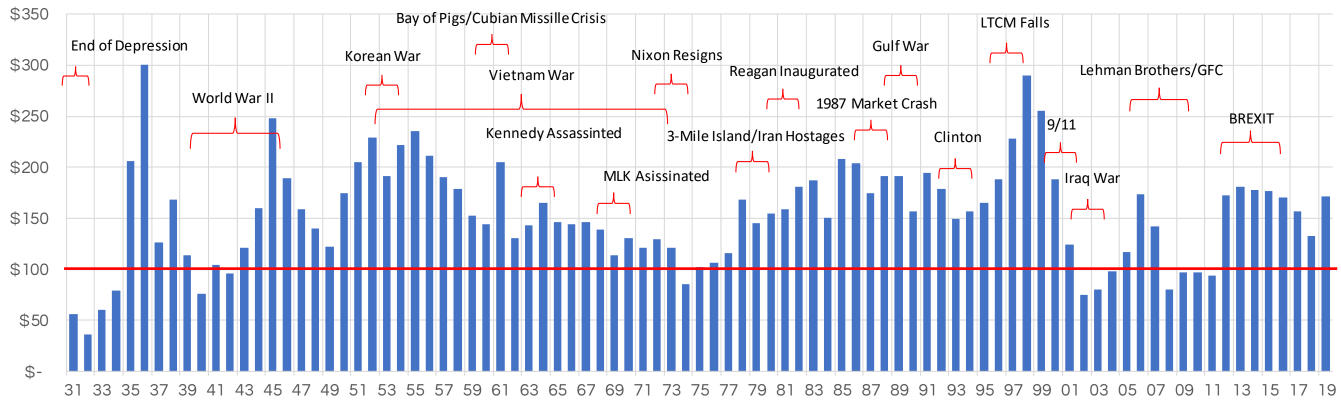
While equities may very well test their lows, the dislocation (freezing) within the fixed-income market from two weeks ago, seems to be settling down. Municipal bonds have done their job, even amidst unprecedented volatility of their own. The once seemingly paltry total returns (yield to maturity) in the 1.5-3.0% range, now seems like a windfall to an S&P 500 that is down roughly 22% YTD. Cash value has also provided clients a “sleep-well” at night dynamic to portfolios, which many clients now appreciate. But income investors need to remember to eat what they kill, and that while asset values may be volatile, if dividends remain intact and companies don’t evaporate, investment-grade yields should endure.

Also, equity investors (like their fixed-income brethren) should try to see around corners. As we suggested a couple of weeks back, in our note, "This Too Shall Pass," we need to prepare for the other side of a flattening pandemic curve in terms of equity allocations, as well as sector and style mandates. **We believe the rebound in equities will be more V-like, while the economy will be more U-like.** The economic consequences of the COVID-19 pandemic are inescapable, and maybe initially more profound than many predict. However, we believe when the economy begins to recover, it will do so at a rate as unprecedented as the decline. Hair will need to be cut, and teeth will require cleaning, and cavities filled. Bathing suits will need to be purchased, and self-quarantined families will be looking for get-away, even for only a day. While some business will cease to exist, others will form, and yet others will evolve.

Finally, believe in history. As we illustrate herein, there have been very few periods where it took longer than 3-4 years for the equity market not only to recover, but provide equity investors with a positive 5-year rolling total return, with the large exception of the Great Depression.

And while many clients are concerned that the current crisis rivals the Great Depression, we believe there are many differences. For one, the 1929 crash was caused in part by the failure of the banking system, resulting in a run on bank deposits. There was also significant market speculation in the year leading up to the crash (in no way similar to 2019) leading to an increase in interest rates. In contrast, the Federal Reserve began cutting rates back in mid-2019, and together with the Treasury, has evolved quantitative easing (injecting capital into the monetary system through purchasing assets) to support several different sectors and facets of the economy. But like the pandemic itself, we cannot say definitively, this time it is different. Until then, please keep calm and carry on. **You are in our thoughts!**

5 Year Rolling Look Back of a $100 Stock Market Investment



Source: FactSet and NEPCG

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