NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

It Takes A Leap Of Faith To Get Things Going

Last week, the equity markets posted their best week in decades. The holiday-shortened week provided equity investors with a 12.1% total return.

For some, last week provided the makings of a relief rally, as the S&P 500 has now retraced roughly 50% of its losses from its all-time high back on February 19, 2020, and now stands down about 13% YTD.

While fixed-income investors, in general, were offered with relatively flat returns for the week, credit continues to stabilize. High-yield bonds were up 5.9%, and credit spreads have tightened by almost 250bps, down to about 8.0% or 800bps.

Remember, a credit spread simply the difference in yield (or spread) between two different investments. In this case, high-yield bonds and less risky U.S. Treasuries. The spread is an indication of how risky one investment (high-yield bond) is compared to another (U.S. Treasuries); the higher the relative spread, the riskier the investment is or has become. So, while the recent move in high-yield spreads have been positive, the long-term average spread is 550bps, still another 250bps tighter than current levels.

We continue to remind our clients that a bottom is a process and not a number. But to this extent, we believe a bottom is forming. Despite losing over 16 million jobs over the last three weeks, and a distinct possibility the U.S. may have entered the deepest recession since 1929, we see medical relief and advancement, along with continued capital market support, suggesting it may be short.

This is not to say we are signaling the "all-clear," as many – including ourselves are coping with human loss and the unfortunate knock-on economic impact of a locked-down economy. **But, from a market perspective, we suggest slowing taking on risk, but avoid the "all-in" approach.** No one can accurately time the market, including us. However, for investors with longer-term goals, we feel easing back into equities in a measured fashion, may prove to be opportunistic. And while the expected economic downturn that might eventually unfold may be like none before it (as it has been man-made), we expect the bounce to be equally unprecedented.

We hold hope and faith that our way of life will get us through this and be better for it. Perhaps we become more thankful for the personal relationships we are blessed with and revere the professional relationships we have created. Maybe we become more humane and more cooperative, more understanding, and more patient. But it does take a leap of faith to get things going. **We'd love to hear your thoughts.**

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