Weekly Capital Market Comments

March 30, 2020

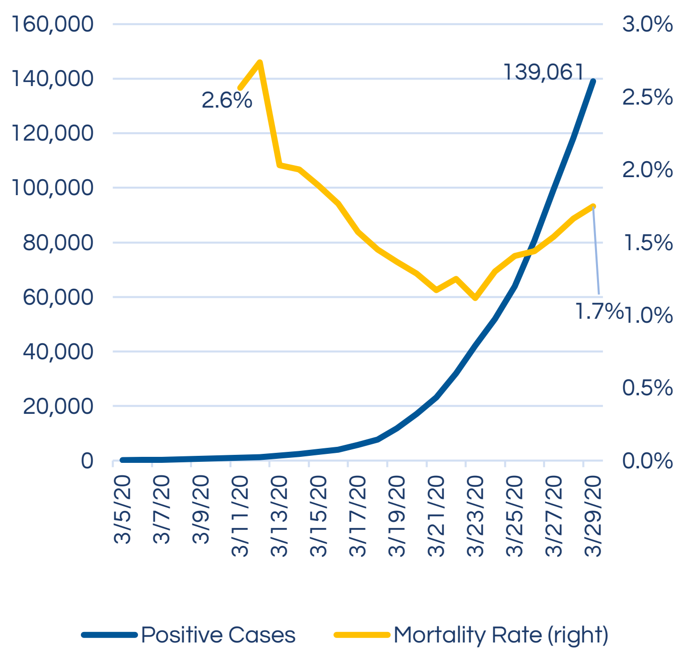
NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

It Ain't Over Till It's Over

We have held countless conversations with clients over the last week, discussing market volatility as well as the potential near/long-term economic impact that COVID-19 has on economic growth. **We continue to suggest to our clients (and readers) that a bottom is a process, not a price**, a process that we continue to move through. And as the great #8 once said, "It ain't over till it's over."

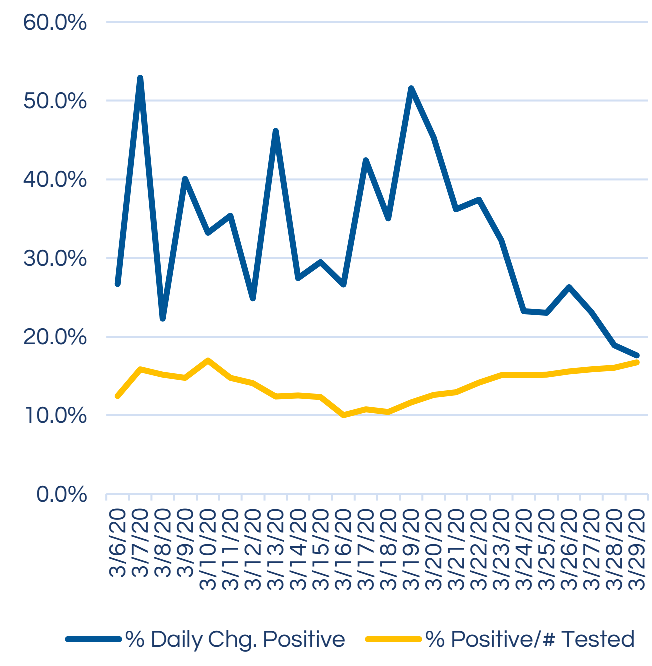
While this may mean different things to different people, for us, it means the following. **First, the equity markets will settle down and bottom when we have increased transparency regarding the earnings impact (positive or negative for the matter) that COVID-19 has on company earnings, and more importantly, small and "main-street" businesses.** To this point, we believe the U.S. has undoubtedly entered into a recession. Last week, the labor market posted an unprecedented level of first-time unemployment claims of 3.3 million, and we expect a similar number this upcoming Thursday, with elevated levels through late April. But at the same time, other data released last week reflected solid U.S. economic activity through February and better than anticipated preliminary results for March. To us, this suggests that the economy was not anywhere as dire as first-time claims suggested, before COVID-19. For example, existing home sales beat expectations while new home sales were higher, signaling the most robust housing market in over 12 months. Flash PMI manufacturing modestly surprised to the upside, while the service component slightly missed. Preliminary durable goods for February also surprised to the upside, and the final 4Q19 GDP printed in-line at 1.3%. Finally, personal income beat the consensus while the University of Michigan Consumer Sentiment Index, only modestly missed expectations.

Positive Cases vs. Mortality Rate



Source: covidtracking.com

Daily Increase Positive vs. % Positive/Tested



Source: covidtracking.com

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This week, we will see U.S. pending home sales, the Chicago Manufacturing PMI, and the Conference Board's Consumer Confidence Index. All three are expected to be well below their prior readings. There will also be some critical European economic data released, which may act as a harbinger for trends here in the U.S. But as we continue to point out, there are key distinctions between the U.S. and Europe, which may help in our ability to curb an exponential increase in cases.

Next, we need to see the geometric acceleration of cases and then a flattening curve. Here, however, there are still several unknown-unknowns, and not until we slow the disease, will markets start to take note. While the daily percentage increase of positive cases seems to be slowing, **the overall absolute number of infected continues to rise**. Also, the percentage of testing positive is increasing while **the mortality rate has unfortunately increased** to about 1.7%. **Therefore, from this perspective, we believe we still have not observed the evidence to suggest a bottom.**

So, the S&P 500 off 21% YTD and down 25% from its all-time high in late February. We believe that if economic data over the next 7-10 days prints "better than feared," equity markets, and more importantly, fixed-income markets, may view this positively. And combined with the 18% rebound (from its lows) last week, may lead many investors to believe that the worst is over. **But we are more skeptical.** While we firmly believe markets are trying to find a bottom, and the devastating impact of COVID-19 will last shorter than most expect**, we would not be surprised if the S&P 500 comes close to re-testing its recent lows (2,200-2,300).** At the same time, a flight to safety continues to bid-up the 10Y, which is now back down, yielding ~0.65%. As a result, the recent price action of utilities and real estate (basically cash trades) suggests, to us anyway, that the equity markets are also not convinced of a bottom. As we pointed out in our 2020 Outlook, we need to see sectors such as discretionary, materials, industrials, and financials to regain relative price momentum to get more comfortable with a market bottom, and reacceleration. Until then, we remain patient but cautiously optimistic that the bottom is coming. **You are in our thoughts!**