1st Quarter 2020 Market Overview

Twin Crises

It seemed unimaginable that the world could change as drastically as it did in the first quarter. COVID 19 derailed every aspect of our daily lives.

In addition to the health crisis, the pandemic ignited a financial crisis that further threatens our mental and emotional health.

March was a purely maniacal month for stock market volatility. Over a 21 day period, the average one day change in the S&P 500 was 4.8% (Bespoke). This led to an eventual decline of 35% as fears over the impact of the virus mushroomed. Virtually no area of the market was spared.

From an investment management standpoint, it is necessary to be prepared for anything. "Unexpected events occur frequently", was the mantra from the late famed investor, Justin Mamis. The virus is extreme in terms of an event. Yet, Mr. Mamis provides a stark reminder that risks always permeate the stock market.

Now, we are faced with the most severe financial circumstances in our generation. For markets, the recovery might not be so swift. First of all, we are being served a recession of daunting proportions. Furthermore, when the stock market shifts its views to the dimming prospects of an immediate recovery, it will most likely be discouraged.

Over the past two weeks, our country went from 200k weekly unemployed to over 10 million. Recently, government policy makers took unprecedented and forceful measures in order to soften the economic blow.

Neal Kashkari, the President of the Minneapolis Fed, claimed (60 Minutes) the Fed's power over its money printing capabilities *to be limitless*. Granted, these policies are sure to boost the stock and bond markets but they often fail to help the intended beneficiaries, Main Street America.

Undoubtedly, the economy faces an arduous road. Expectations for company sales and earnings will be revised drastically downward and this should limit the recovery in the broad market over the next few months.

Emphasis on the Essentials

Investment accounts can avoid the fate of the market and the economy. If they can remain relatively stable, even during the grips of COVID 19, they can also recover more quickly when conditions improve.

During this deleterious period, investing in essentials provides an alternative stability and also offers a degree of growth when healing occurs. Investing in essential companies can be the “right recipe” for investors throughout this pandemic.

The prospects for our economy are worse than at any point in our generation. Goldman Sachs is forecasting an unfathomable 35% decline in GDP for the second quarter.

On the other hand, companies that provide essential goods and services are more likely to be immune.

Demand for food, beverage, and household products will not wane in a shutdown or in a recession. In addition, transportation companies, like truckers, are also vital in order to move these necessary goods to the point of sale. Companies in these sectors could actually flourish because of their relatively strong position in a grim economy.

Peregrine Strategy

As the upcoming recession charts its course, investors will clamor for income and stability. Money market cash returns, which have been earning over 2%, are soon to earn zero. The rate on the 10 year US Treasury note is below 1%, all time lows. In addition, the extreme volatility in the stock market make investors skittish.

These factors mean investors will be starved for safe, predictable, income producing, vehicles. Stocks and bonds of these resilient companies could offer strong returns in the months ahead.

The vast sum of money printed by our government also presents problems for the valuation of the US dollar. An investment in gold offers safe-haven characteristics and would counteract a further dollar decline.

In March, we bid adieu to the I–Shares 20 year Treasury Bond (25% gain) and NextEra Energy (40% gain). These were excellent long term investments that typically rose in value when the market fell. These positions appeared to be topping out recently.

As the fallout from the crisis evolves, investing in essential companies, fixed income instruments, and gold, should offer client accounts an effective combination of stability and growth potential.

Dan Botti
Investment Manager
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