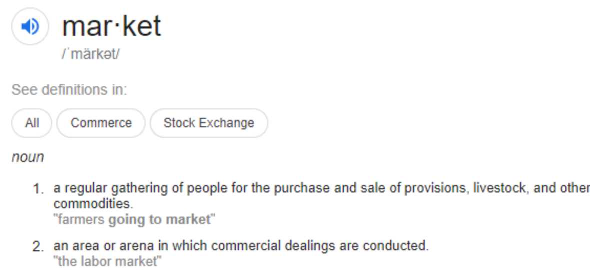
BESPOKE Investment Group March 20, 2020

The Bespoke Report

It’s a Covid, Covid World

Each week in this report, we recap recent events in financial markets and the economy and attempt to interpret how they will impact things going forward. Unfortunately, after the last week or two we’re not quite sure if we have a market, or for that matter an economy, to speak of. Kidding. Sort of.

If you Google the definition of the word ‘market’ you get the result to the right. Two definitions. The first says, ‘a regular gathering of people for the purchase and sale of provisions, livestock, and other commodities.’ The second definition goes on to say, ‘an area or arena in which commercial dealings are conducted.’



Regarding the first definition, there has been nothing ‘regular’ about the trading we are seeing in some of the largest and traditionally most liquid parts of financial markets this week. From large cap equities, to oil and US Treasuries, we saw historic moves on a day to day basis with each asset class having one of its worst days on record only to be followed by one of its best days ever the next. There’s nothing ‘regular’ about that. Credit markets have essentially seized up, and assets are fluctuating like mad as investors rush to deleverage.

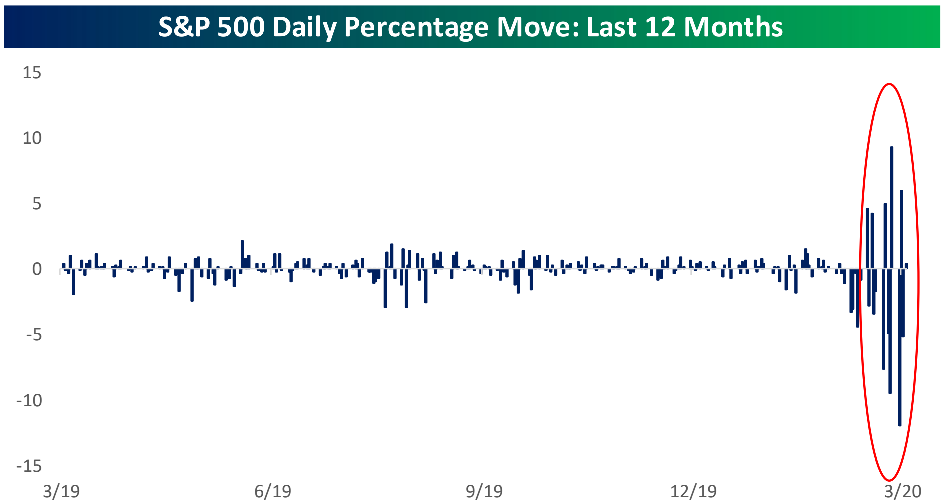
Moving on to the second definition, with physical trading floors such as the NYSE and CME both closing for the foreseeable future, there is no longer an arena where the transactions are conducted, at least an arena where one can physically go! Second, in terms of deals being conducted, that’s happening less now too. Robinhood, the free trading app that has become popular with millennials, seems to be offline more often than it is on. Even with more established firms, though, we’ve heard numerous examples where equity and treasury trades were entered but executions weren’t received until hours, or in some cases, days later.

The economy is an entirely different story. For starters, it was pulverized this week as the coronavirus and the panic over its spread essentially ground a large chunk of it to a halt. As you’ll see later on, the damage is only beginning to show up in the official data, but it’s going to get a lot worse in the days and weeks ahead. In no way do we want to minimize the severity of the Covid-19 virus and its risks, but the economic impact of all the precautions are having a major cost on the economy. Essentially, we’ve put the economy in an induced coma, and the longer we keep it in this state, the harder it will be to bring it out.

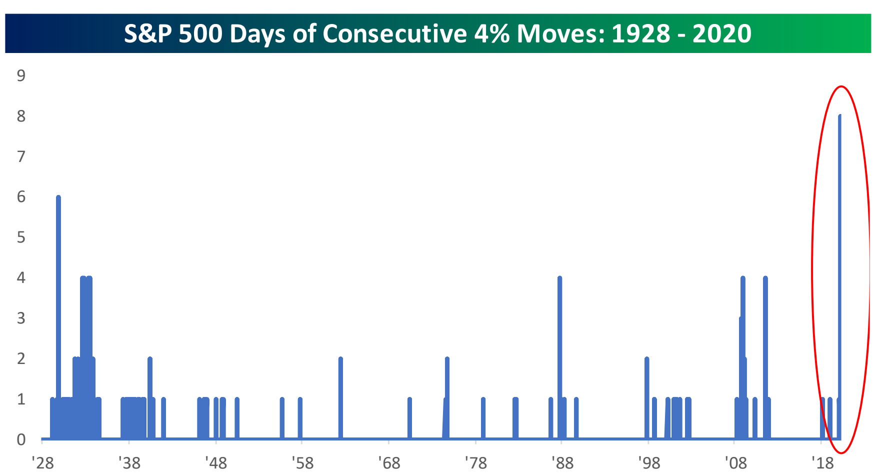
While trading in the equity market was wild this week, other areas of the financial ‘markets’ were even crazier. On the pages that follow, we’ll go through some of these moves and try to make some sense of them, check on some recent economic data highlighting what could have been as well as what’s likely to come, as well as look for comparisons to other significant market declines. From there, since just about every shorter-term trend in the market has been shattered, we’ll take a long range look at how things look from a multi-decade perspective.

It’s been a rough month for equity investors, and it’s likely to stay difficult for some time to come, but just as it has every time in the past, the market will eventually bounce back from this. It may not be quick, but eventually we’ll get there!

- The stock market is often referred to as a barometer of the economy, and the chart below of the S&P 500's daily changes over the last year can be thought of as its EKG.
- Right now the economy is in an induced economic 'cardiac arrest' as businesses in the United States have been forced to shutdown. To help offset this, central banks and lawmakers have the paddles out in an attempt to keep some semblance of stability.

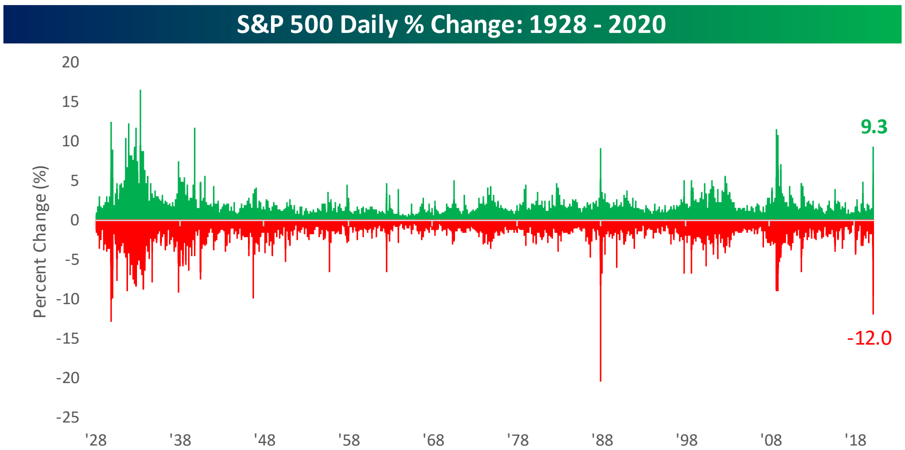


- If you need an example of how extreme a situation the market is in (and by the time you finish reading this today, you'll have seen more than enough), the chart below sums it up perfectly.
- Through Wednesday's close, the S&P 500 saw a daily move of over 4% for eight straight days!
- That's the longest streak on record, eclipsing even the extreme readings seen during the Great Depression and the Financial Crisis.
- This is not representative of a market exhibiting any semblance of efficiency or trading on fundamentals. The reason it's not trading on fundamentals is because at this point there are no fundamentals to speak of!



With such a large number of consecutive daily moves of over 4%, it shouldn't come as a surprise that the S&P 500 has experienced some record moves in terms of one-day declines and losses.

- In a span of three trading days from 3/12 through 3/16, the S&P 500 saw its 7th worst day on record (3/12), its 10th best day on record (3/13), and its third worst day on record (3/16)!
- Throughout the S&P's history, there have only been a handful of other periods where the market's EKG went into cardiac arrest like this, but none of them were a pleasant experience by any stretch of the imagination and none of them were intentional!



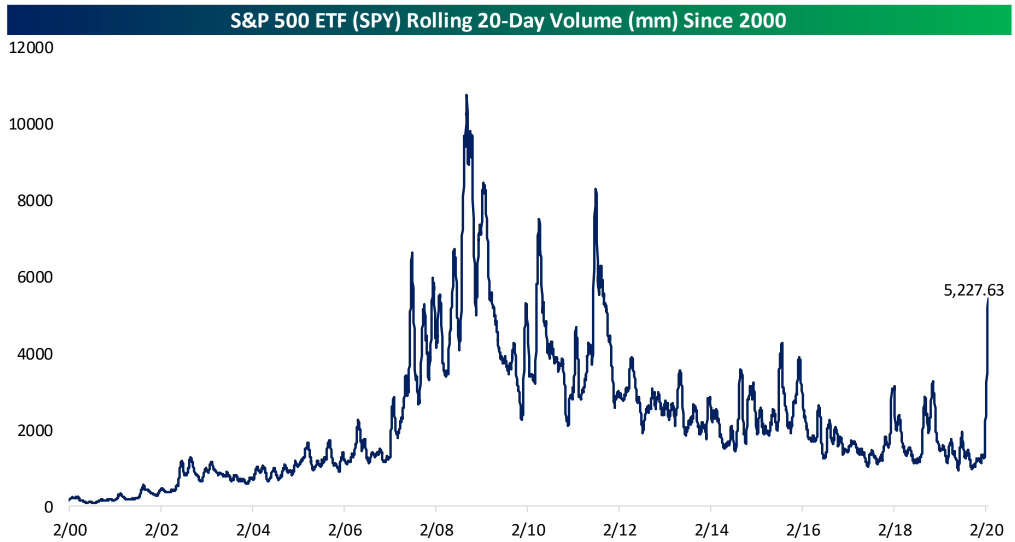
- Below we show the ten best and worst one day percentage moves for the S&P 500 going back to 1928 and how the S&P 500 performed in the week after each of these moves.
- It's tempting to interpret a large rally in the market as a sign of a new leg higher, but more often than not, that hasn't been the case. In fact, the S&P 500's average change in the week after its ten largest one day gains was a decline of 2.0% (median: -1.7%).
- Conversely, in the week that followed a top ten down day for the S&P 500, forward one week returns were positive more often than negative.
- The problem now is that each of these days tends to come in succession with each other!

S&P 500 Largest One Day Gains and Declines: 1928 - 2020

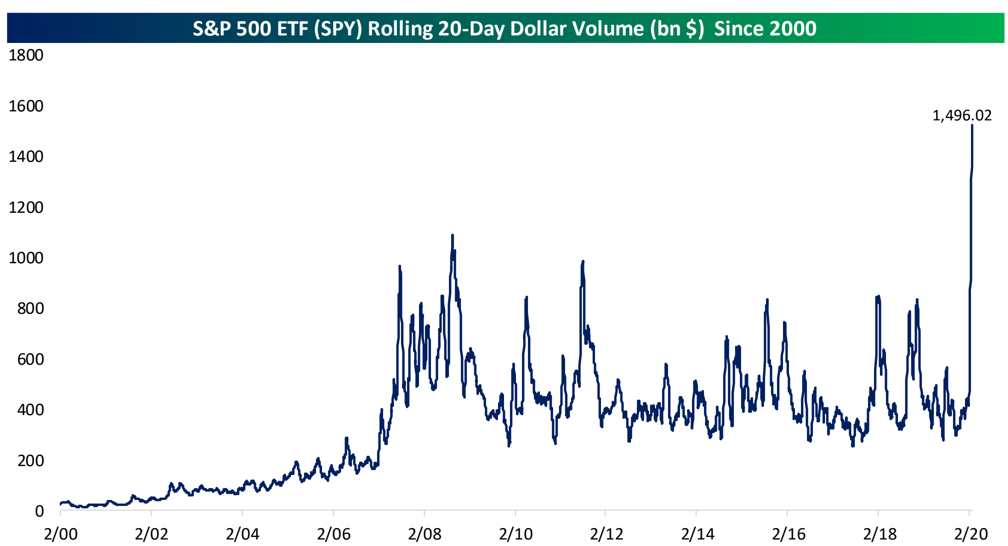
Date	Price	One Day Change (%)	Next Week (%)	Date	Price	One Day Change (%)	Next Week (%)
3/15/33	6.8	16.6	-10.1	10/19/87	224.8	-20.5	1.3
10/30/29	23.0	12.5	-10.4	10/28/29	22.7	-12.9	0.6
10/6/31	9.9	12.4	1.9	3/16/20	2386.1	-12.0	
9/5/39	12.6	11.9	4.2	10/29/29	20.4	-10.2	12.0
9/21/32	8.5	11.8	-1.9	11/6/29	20.6	-9.9	-14.3
10/13/08	1003.4	11.6	-1.8	9/3/46	15.0	-9.9	-2.7
10/28/08	940.5	10.8	6.9	3/12/20	2480.6	-9.5	-2.9
6/22/31	14.6	10.5	3.3	10/18/37	10.8	-9.1	11.5
4/20/33	7.8	9.5	-1.5	10/5/31	8.8	-9.1	19.6
3/13/20	2711.0	9.3	-11.1	10/15/08	907.8	-9.0	-1.2
Average			**-2.0**				**2.7**
Median			**-1.7**				**0.6**

With the massive swings across assets, volumes have spiked too.

- Looking at the 20-day average volume in SPY, we've seen quite a large uptick as the market has crashed.
- At an average of 5.2 billion shares per day, volume in SPY is at levels not seen since 2011.



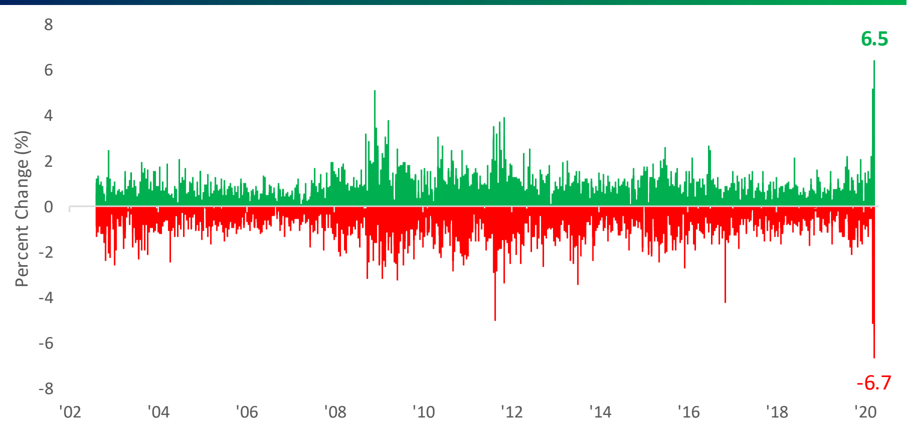
- Looking simply at volume levels doesn't tell the entire story, though.
- The chart below shows the average dollar volume in SPY going back to 2000. Looking at it this way, the average dollar value of all trades in SPY on a daily basis over the last 20 days has spiked to $1.5 trillion per day, which is 50% above the prior record from the Financial Crisis.



Similar to the S&P 500, even a market as large as the long-term treasury market is seeing record extremes.

- While the history of the Long-Term Treasury ETF (TLT) isn't as extensive, going back to 2002, the ETF saw both its largest one-day gains and losses on record over the last ten days.
- On 3/16, TLT rallied 6.5% in a single day for its largest one-day gain on record. That gain was also more than a full percentage point more than the next largest one day gain.
- On the downside, TLT's three largest one day declines all occurred in the period spanning March 10th through March 18th!

iShares Barclays 20+ Yr Treasury Bond (TLT) Daily % Change: 2002 - 2020



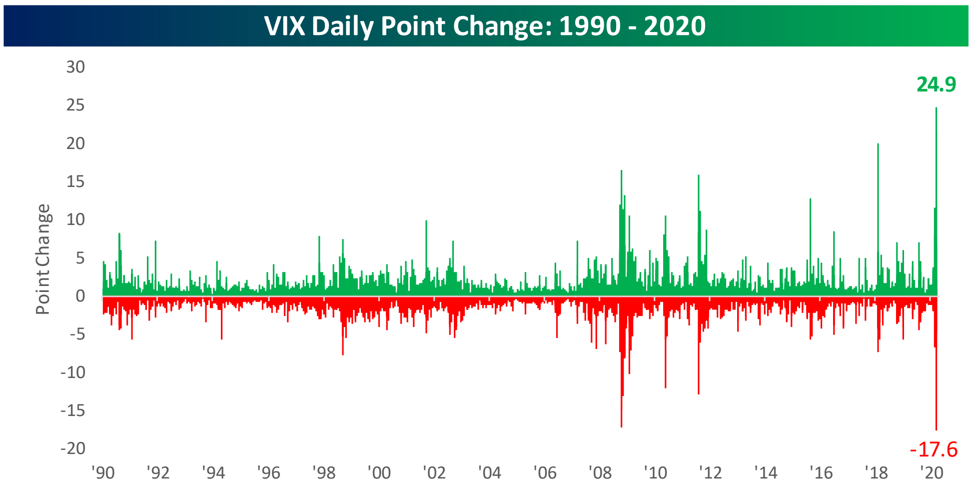
- Below we show the ten largest one-day gains and losses for TLT since its inception in 2002.
- Here again, big one-day gains are usually followed with losses over the following week.
- In the case of the largest one-day declines, TLT also averaged declines in the next week, although since two of the ten days listed occurred in the last week, the data is somewhat incomplete.

Long Term Treasury ETF (TLT) Ten Largest One Day Gains and Declines: 1983 - 2020

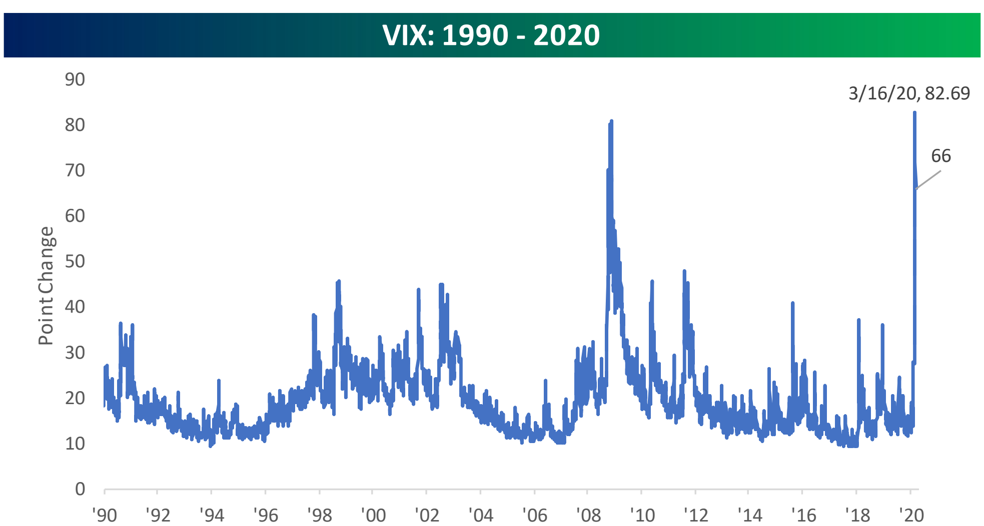
Date	Price	One Day Change (%)	Next Week (%)	Date	Price	One Day Change (%)	Next Week (%)
3/16/20	163.91	6.5		3/17/20	152.98	-6.7	
3/6/20	166.77	5.2	-7.7	3/18/20	144.35	-5.6	
11/20/08	104.43	5.2	0.0	3/10/20	162.51	-5.1	-5.9
10/31/11	115.88	4.0	1.2	8/11/11	103.52	-5.0	6.6
3/18/09	104.37	3.8	-1.7	11/9/16	124.57	-4.2	-1.3
9/22/11	123.12	3.8	-4.3	3/11/20	156.53	-3.7	-7.8
8/4/11	105.36	3.6	-1.7	7/5/13	106.26	-3.4	1.4
12/1/08	109.4	3.5	0.8	10/27/11	110.3	-3.4	5.5
9/21/11	118.66	3.3	-1.4	6/1/09	91.09	-3.3	-1.6
9/2/11	112.51	3.2	1.1	9/19/08	93.97	-3.2	0.6
Average			-1.5				-0.3
Median			-1.4				-0.3

The VIX has also been fibrillating like never before.

- Since March 9th, the VIX has seen three of its ten largest one day point moves higher, including its two largest one day increases on 3/12 and 3/16.
- As if those extremes weren't enough, the VIX also had its largest one day decline on record on 3/13 falling 17.6 points and then on Friday (3/20), the VIX was down a full thirteen points which would be the fifth largest one day decline on record.

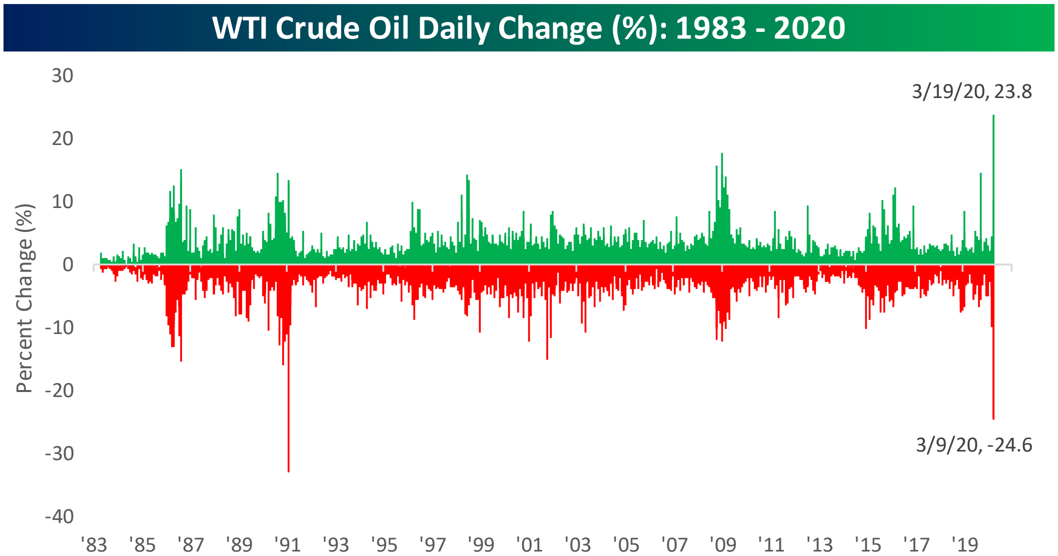


- After closing at a record closing high of 82.69 on Monday, the VIX came crashing down throughout the week and was in the mid-60s as of Friday afternoon.
- The fact that the VIX has been declining is encouraging, but we would also note that it's just about impossible for it to stay as elevated as it was earlier this week. That would warrant sustained moves of over 5% each day.
- With that in mind, don't be surprised to see realized and implied volatility fall substantially in coming weeks regardless of where larger stock market prices go.

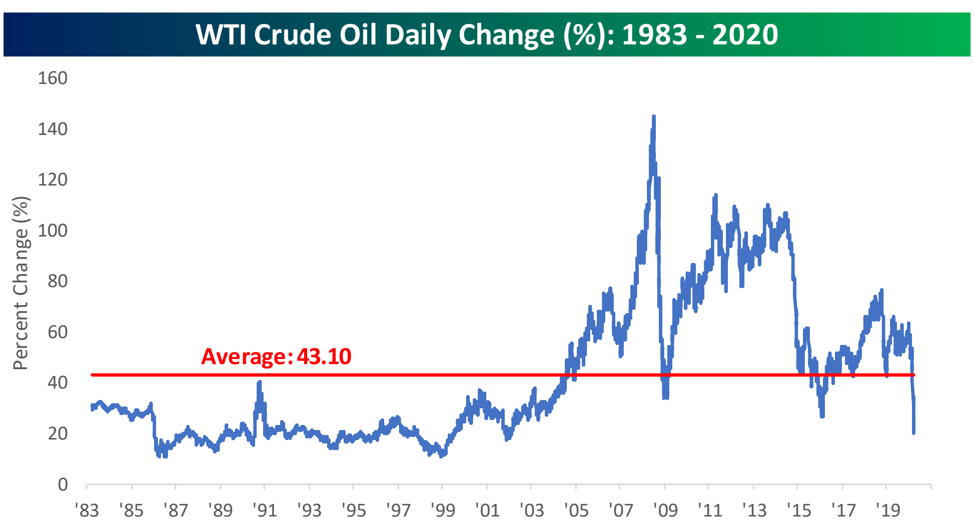


Crude oil is another illustration of the extreme volatility.

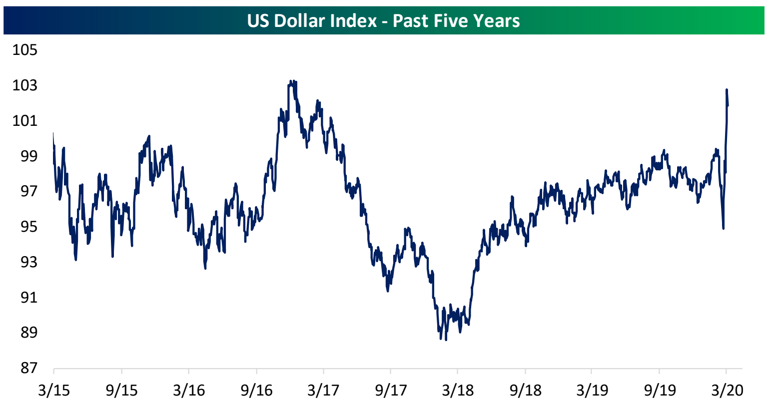
- Since March 9th, WTI has seen its largest one day gain on record (3/19, +23.8%), as well as its second, third, and fourth largest one-day declines on record (3/9, -24.6%, 3/18, -24.4%, and 3/20, -21.3%).

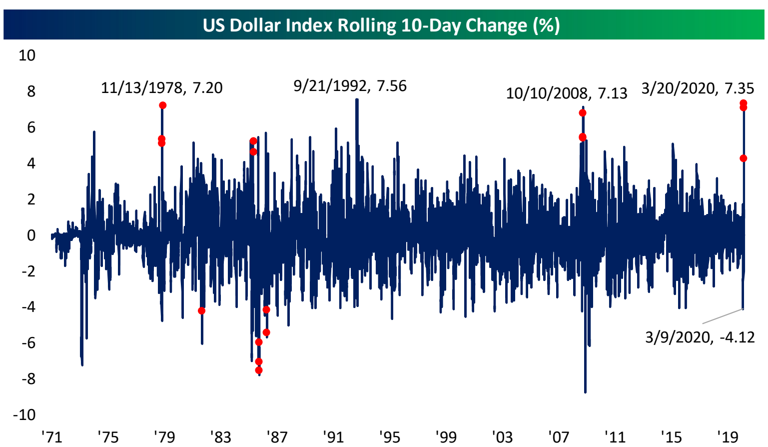


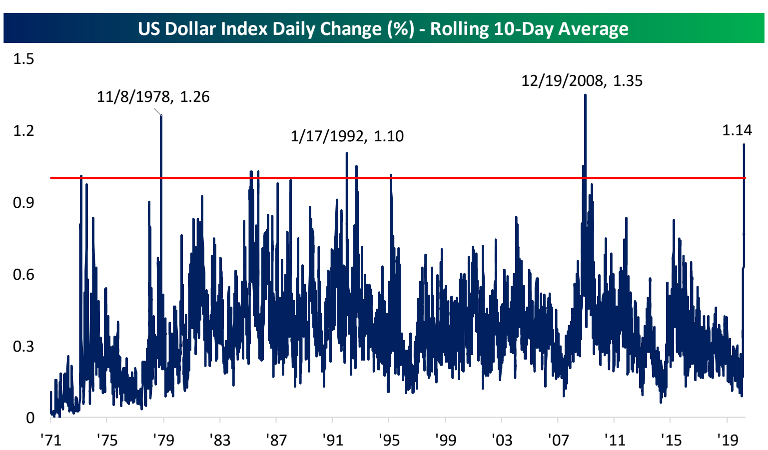
- The decimation of oil prices has been extreme to say the least.
- At a level of under $20 per barrel to close out the week, WTI was trading at less than half its average price going back to 1983.
- The last time prices were this low was over 18 years ago back in February 2002.
- At one point during the week, there were some strategists forecasting that the price of oil could theoretically go negative!



- In the currency space, the US dollar has certainly not been immune from recent market volatility.
- The dollar index saw a short term peak on February 20th, just one day after the S&P 500's peak and was the highest level since April of 2017.
- Over the following days, the dollar would go on to fall roughly 5% to its low on March 9th. In the time since then, it has more than recovered those losses, rising over 7% and is once again back up to its highest levels since 2017.
- This string of volatility for the greenback is rare.







- The dollar is up 7.35% over the past ten trading days, but just back on the ninth (the recent low) it had been lower by 4.12% over the prior ten days.
- The last time that there was both a 10-day change up and down of at least 4% in the span of just ten days was back in October of 2008.
- Going back through the index's history since the early 1970s, there have been a total of 17 days in which such swings can be observed; shown by the red dots in the chart to the left.
- Prior to 2008, the only other times the dollar was as volatile by this measure was in the 1980s and late 1970s. So with regards to more recent history, it is even more unprecedented.
- In terms of daily changes, the dollar has also been very volatile averaging a daily change (positive or negative) of 1.14%.
- That is the most volatile it has been since 2008, and prior to that, the only other times the daily average change was over 1% was in the early 1990s, mid-1980s, and late 1970s.

Below we have provided an update of our ETF Performance Matrix showing performance of key ETFs across all asset classes. In the years that we have been doing this, we have never seen a matrix quite like this as some of the best performing ETFs on the entire matrix for this week were still down.

- Of the major US indices, they were all down anywhere ranging from 11% for the Nasdaq 100 to 18% for the Midcap 400. The S&P 500 was down almost 15% putting its YTD decline at 28.5%.
- Sector performance was equally poor with every sector down at least 10% but none down more than 20%. Energy was the worst performer on the week with a decline of 19.7% taking its YTD decline to 57%.
- On an international basis, Brazil was the weakest performer with a decline of 23.3% this week, while Japan held up the best falling 'only' 2.5%. There was a time not long ago where a 2.5% decline in a week was considered a sharp drop. Those were the days!
- In commodities, oil fell 30% this week and is down over 60% on the year. That almost makes the 31% YTD drop in natural gas seem like a win.

Asset Class Performance This Week, Since 2/19, and YTD - Total Return (%)

US Related ETF	Description	This Week	Since 2/19	YTD
SPY	S&P 500	-14.52	-31.96	-28.48
DIA	Dow 30	-17.06	-34.36	-32.26
QQQ	Nasdaq 100	-11.25	-27.97	-19.71
IJH	S&P Midcap 400	-18.06	-39.79	-38.65
IJR	S&P Smallcap 600	-16.31	-40.42	-40.63
IWB	Russell 1000	-15.42	-32.91	-29.28
IWM	Russell 2000	-15.13	-39.79	-38.79
IWV	Russell 3000	-15.09	-32.90	-29.47
IVW	S&P 500 Growth	-13.94	-30.00	-23.87
IJK	Midcap 400 Growth	-17.90	-37.79	-35.35
IJT	Smallcap 600 Growth	-16.38	-39.30	-37.74
IVE	S&P 500 Value	-15.73	-33.98	-33.35
IJJ	Midcap 400 Value	-19.11	-42.48	-42.66
IJS	Smallcap 600 Value	-16.33	-41.72	-43.68
DVY	DJ Dividend	-17.16	-37.32	-37.17
RSP	S&P 500 Equalweight	-17.11	-36.78	-35.16
FXB	British Pound	-6.22	-10.34	-12.54
FXE	Euro	-4.05	-1.40	-5.08
FXY	Yen	-2.74	-0.04	-2.42
XLY	Cons Disc	-14.16	-33.61	-29.99
XLP	Cons Stap	-10.97	-21.85	-19.97
XLE	Energy	-19.66	-52.85	-56.93
XLF	Financials	-17.96	-39.25	-38.56
XLV	Health Care	-12.76	-23.98	-22.35
XLI	Industrials	-18.33	-38.90	-36.91
XLB	Materials	-12.53	-32.78	-33.77
XLK	Technology	-15.17	-30.52	-22.09
XLC	Comm Services	-12.92	-30.15	-25.00
XLU	Utilities	-17.08	-31.89	-26.00

Global ETF	Description	This Week	Since 2/19	YTD
EWA	Australia	-22.48	-42.08	-40.90
EWZ	Brazil	-23.26	-49.15	-52.94
EWC	Canada	-16.62	-39.05	-37.24
ASHR	China	-13.87	-14.68	-16.84
EWQ	France	-13.37	-36.78	-37.42
EWG	Germany	-14.00	-38.14	-37.93
EWH	Hong Kong	-10.79	-22.05	-22.85
PIN	India	-15.62	-32.83	-32.80
EWI	Italy	-10.86	-39.04	-37.12
EWJ	Japan	-2.51	-21.52	-23.85
EWW	Mexico	-21.30	-43.15	-39.95
EWP	Spain	-12.34	-37.74	-36.62
RSX	Russia	-14.65	-40.85	-40.73
EWU	UK	-16.49	-38.97	-41.17
EFA	EAFE	-11.08	-31.80	-32.24
EEM	Emerging Mkts	-13.23	-29.10	-30.11
IOO	Global 100	-12.46	-29.63	-26.53
BKF	BRIC	-12.10	-27.56	-26.90
DBC	Commodities	-9.66	-26.58	-31.41
USO	Oil	-29.02	-55.81	-61.44
UNG	Nat. Gas	-15.05	-18.00	-25.68
GLD	Gold	-2.21	-7.69	-1.95
SLV	Silver	-15.12	-32.56	-30.34
SHY	1-3 Yr Treasuries	0.24	1.97	2.51
IEF	7-10 Yr Treasuries	1.53	5.13	8.37
TLT	20+ Yr Treasuries	3.57	9.71	18.05
AGG	Aggregate Bond	-1.64	-3.63	-1.67
BND	Total Bond Market	-1.85	-3.57	-1.61
TIP	T.I.P.S.	1.52	-2.43	-0.50

- While the S&P 500 is down roughly 30% from its high on 2/19, the average stock in the index is down 35%. Below is our decile analysis of the index which we run to see which stock characteristics are driving performance to either the upside or the downside. To run the analysis, we break the index into deciles (10 groups of 50 stocks each) based on the various categories listed in the matrix below. We then calculate the average performance since 2/19 of the stocks in each decile.
- As you'll see, there has been nowhere to hide. Even the very best performing decile, which is actually the one made up of the 50 highest priced (share price) stocks on 2/19, is down 26%. The worst performing decile, which is made up of the 50 lowest priced stocks on 2/19, is down 53.7%. In a month. Truly incredible.
- The largest stocks in the S&P have held up much better than the smallest stocks, while the stocks with the lowest PEG ratios, lowest P/E ratios, and lowest price to sales ratios have gotten hit the hardest. The stocks with the highest dividend yields (many of which will likely now not be paid) have also gotten hit much harder than stocks with low or no dividend yields.
- Stocks with the worst analyst ratings (least loved) on 2/19 have outperformed the most loved stocks, while the stocks that were down the most YTD already on 2/19 are down another 47% since then.

S&P 500 Decile Performance: Since 2/19 All-Time Closing High

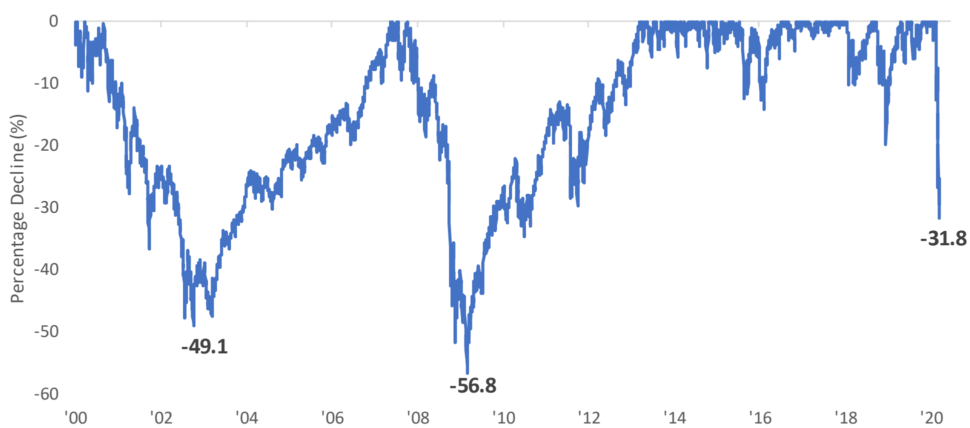
	Decile 1	2	3	4	5	6	7	8	9	Decile 10
Share Price (Highest to Lowest)	-26.01%	-27.84%	-27.25%	-31.04%	-28.93%	-33.97%	-35.63%	-39.03%	-45.55%	-53.71%
Market Cap (Largest to Smallest)	-26.86%	-30.46%	-31.35%	-35.67%	-33.83%	-37.13%	-35.65%	-32.76%	-40.59%	-44.48%
P/E Ratio (Lowest to Highest)	-48.76%	-39.77%	-33.40%	-35.69%	-35.13%	-29.74%	-31.07%	-28.38%	-29.11%	-37.59%
PEG Ratio (Lowest to Highest)	-47.25%	-39.82%	-35.22%	-34.22%	-33.74%	-30.07%	-30.84%	-28.11%	-31.43%	-37.94%
Price to Sales (Lowest to Highest)	-41.04%	-43.35%	-40.37%	-40.31%	-38.61%	-32.69%	-27.17%	-26.73%	-30.07%	-28.11%
Dividend Yield (Highest to Lowest)*	-44.84%	-34.87%	-35.13%	-36.03%	-32.10%	-33.97%	-33.27%	-33.58%	-35.12%	-31.36%
Short Interest (Lowest to Highest)	-29.07%	-33.34%	-34.27%	-34.36%	-32.56%	-39.55%	-35.29%	-37.06%	-38.39%	-34.70%
% Institutional Owners. (Lowest to Highest)	-30.76%	-31.59%	-36.48%	-32.63%	-36.55%	-35.01%	-32.64%	-37.92%	-37.71%	-37.35%
Analyst Ratings (Best to Worst)	-37.63%	-39.79%	-34.44%	-33.77%	-36.97%	-35.32%	-33.69%	-35.66%	-33.27%	-27.90%
% International Revenues (Most to Least)**	-32.77%	-34.16%	-31.82%	-32.59%	-35.48%	-34.67%	-36.29%	-36.17%	-35.56%	-35.08%
YTD % Chg Thru 2/19 (Best to Worst)	-30.54%	-33.38%	-29.09%	-31.44%	-33.25%	-36.62%	-36.86%	-35.43%	-35.05%	-47.18%

*Decile 10 of dividend yield category is made up of all stocks that pay no dividend.
**Decile 10 of international revenues category is made up of all stocks that have no international revenues.

With a decline of over 4% on Friday, the S&P 500 finally reached the 30% threshold in terms of the decline from last month's record high.

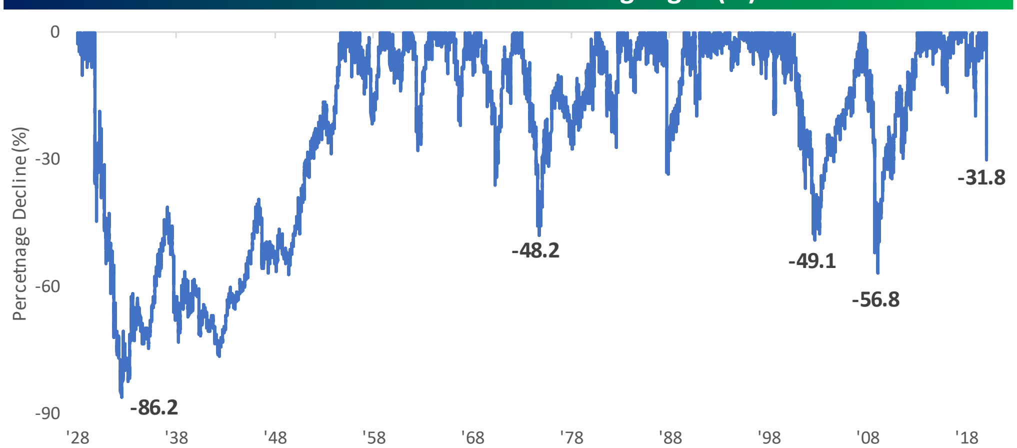
- This is the deepest decline for the S&P 500 from a record high since early 2009.
- What makes this decline even more notable is that in the span of just 20 years, the S&P 500 has seen a 49.1% decline from a record high, a 56.8% decline from a record high, and now a 30% decline from a record high (and we may not even be done yet!).
- These kinds of ups and downs have never been seen in the US stock market.

S&P 500 Drawdowns From All-Time Closing Highs (%): Last 20 Years



- The chart below shows historic drawdowns from all-time highs for the S&P going back to 1928. Obviously, the Great Depression was deeper and longer than any other sell-off we have seen, but the two prior 30%+ drawdowns from the last 20 years rank as the second and third steepest ever.

S&P 500 Drawdowns From All-Time Closing Highs (%): 1928 - 2020



Going back to 1928, the current drop in the S&P 500 from its record high less than a month ago would mark just the 7th time in the index's history that it dropped 30% and is just about the quickest.

- The 30 days it took to fall 30% is the fastest ever, a faster drop to 30% than both the 1929 and 1987 market crashes.

S&P 500 30%+ Declines: 1928 - 2020

The table below shows each prior period where the S&P 500 dropped 30% or more from a record high. For each period, we show the date when the 30% threshold was reached, the number of days it took to fall 30%, as well as the magnitude of the decline on that day. From there, we also show the S&P 500's performance over the following week, month, three months, six months, one year, as well as the maximum decline to the ultimate low.

- Of the seven prior periods shown, forward returns were mixed.
- One week after the 30% threshold was originally reached, the S&P was basically flat on an average basis but down by 2% on a median basis with declines four out of six times.
- One and three months later, forward returns are also negative on an average basis and returns have been evenly split between positive and negative.
- Moving six and twelve months out, returns have been positive on both an average and median basis, but even a year out, the S&P 500 was down as many times as it was up.

S&P 500 30%+ Declines From Record Highs: 1928 - 2020

	Date of 30%			Performance From Close on Day 30% Threshold Reached					
Peak	Threshold	Days	% Decline	One Week	One Month	Three Months	Six Months	One Year	Max Decline
9/16/29	10/29/29	43	-35.9	12.0	2.4	9.4	21.0	-14.1	-78.5
11/29/68	5/14/70	531	-30.4	-4.3	-1.6	-0.3	10.5	35.5	-8.2
1/11/73	7/5/74	540	-30.4	-0.6	-5.2	-25.5	-15.5	12.8	-25.6
8/25/87	10/19/87	55	-33.2	1.3	6.8	10.9	14.7	23.2	-0.4
3/24/00	9/17/01	542	-32.0	-3.4	3.7	9.2	12.3	-15.9	-25.2
10/9/07	10/6/08	363	-32.5	-5.1	-14.4	-11.6	-20.9	-0.2	-36.0
2/19/20		30	-29.7						
Average				**0.0**	**-1.4**	**-1.3**	**3.7**	**6.9**	**-29.0**
Median				**-2.0**	**0.4**	**4.4**	**11.4**	**6.3**	**-25.4**

When the S&P 500 first reaches the 30% threshold, how long does it take to reach its final bottom, and then how long does it take for the S&P 500 to rally back to new highs?

- Of the six prior periods shown, only once did the S&P 500 reach a bottom within a year of first falling 30% from a record high. Overall, the average time it took to reach a bottom was 1.7 years (median: 1.6).
- Getting back to a record high is pretty much the last thing on anyone's mind right now, but the table below also shows when and how long it took for the S&P 500 to reach a new record high after the peak leading up to the 30% decline.

30%+ Declines From Record Highs

	Bottom		New High	
Peak	**Date**	**Years**	**Date**	**Years**
9/16/29	6/1/32	2.7	9/23/54	25.0
11/29/68	5/26/70	1.5	3/6/72	3.3
1/11/73	10/3/74	1.7	7/17/80	7.5
8/25/87	12/4/87	0.3	7/26/89	1.9
3/24/00	10/9/02	2.5	5/30/07	7.2
10/9/07	3/9/09	1.4	3/28/13	5.5
2/19/20				
Average		**1.7**		**8.4**
Median		**1.6**		**6.3**

- The moral of the story? Don't hold your breath. Of the six prior periods shown, the S&P 500 went an average of 8.4 years between record highs (median: 6.3 years). The longest span between record highs was 25 years following the depression, while the shortest span was less than two years after the crash of 1987.
- Obviously, that's a wide range and none of these prior experiences look anything even remotely like the current period, but at least it's good to know prior patterns of the past. Please note that charts of each prior period are included on the following pages.

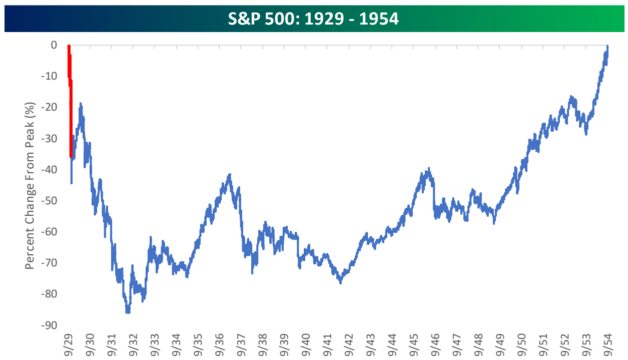
So, with history showing that the S&P 500 almost always continues to trade lower after reaching the 30% threshold, what's the point of even holding any stocks? The reason lies in the fact that the market is just about impossible to time.

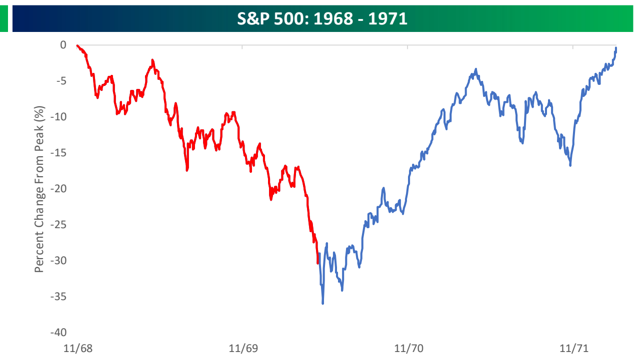
- The table below shows the S&P 500's performance from the low of each 30%+ decline out over the next week, month, three months, six months, and one year.
- Forward returns for the market are obviously very positive. Within just the first week, the S&P 500's average gain has been 9.25%. Moving out over time, the magnitude of the move increases further to an average of 54.5% (median: 41%).

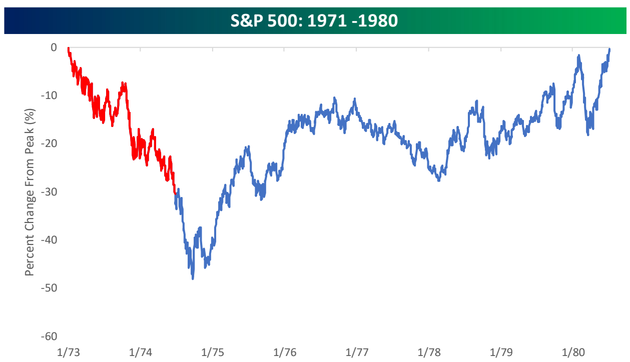
S&P 500 Performance Following Rebounds From 30%+ ATH Declines

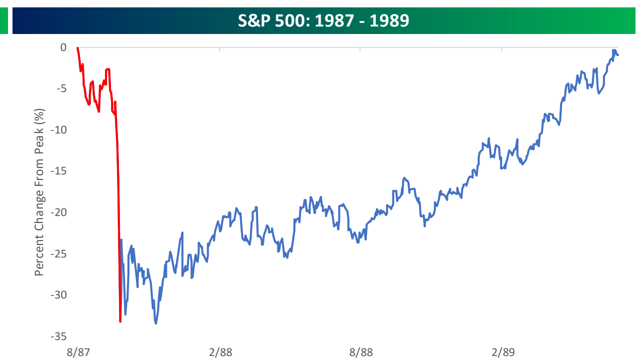
	S&P 500 Change (%)				
Date	**One Week**	**One Month**	**Three Months**	**Six Months**	**One Year**
6/1/32	3.86	4.55	92.50	52.95	121.36
5/26/70	12.34	6.03	17.20	22.80	43.73
10/3/74	12.06	18.63	13.54	30.88	38.01
12/4/87	5.09	14.30	19.37	18.99	21.39
10/9/02	10.72	15.19	19.42	11.49	33.73
3/9/09	11.43	26.61	39.30	52.75	68.57
Average	**9.25**	**14.22**	**33.56**	**31.64**	**54.46**
Median	**11.08**	**14.74**	**19.39**	**26.84**	**40.87**

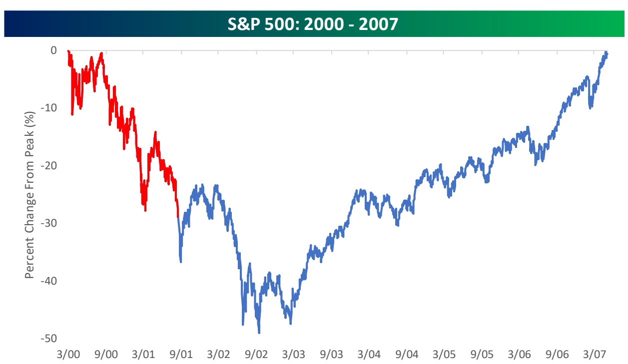
Below we show the charts of the S&P 500 during each prior 30% decline from a record high and its subsequent rally back to new highs. Make sure to play close attention to the x-axes on these charts as in some cases the duration is relatively short while in others, the road to new highs was quite long.





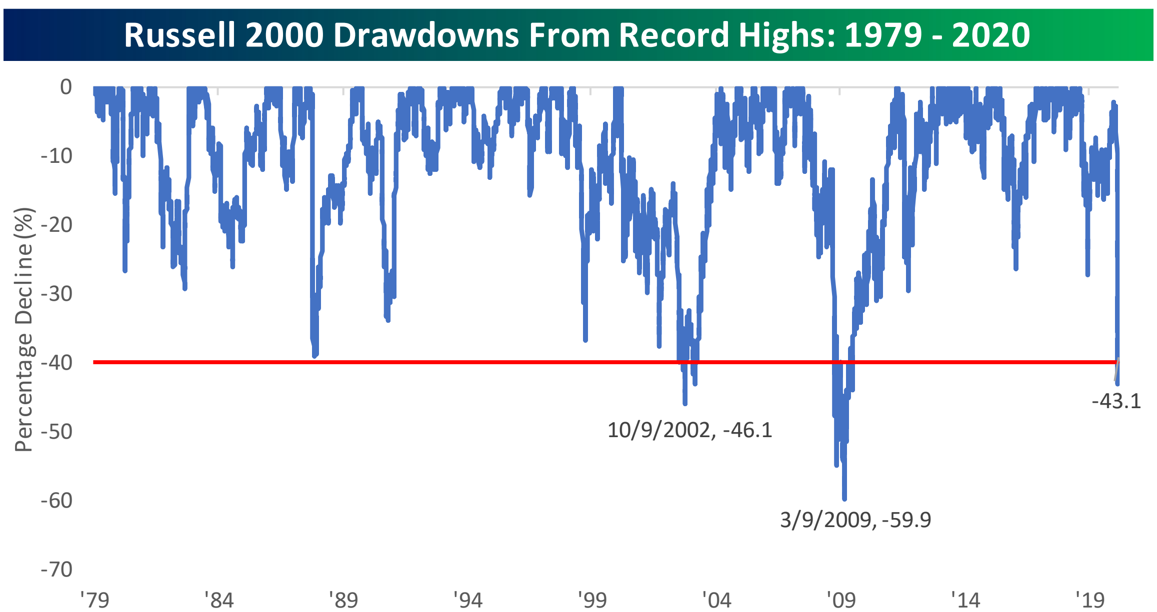






While US large cap stocks are right around 30% from their record highs a month ago, the carnage in small caps has been even more severe.

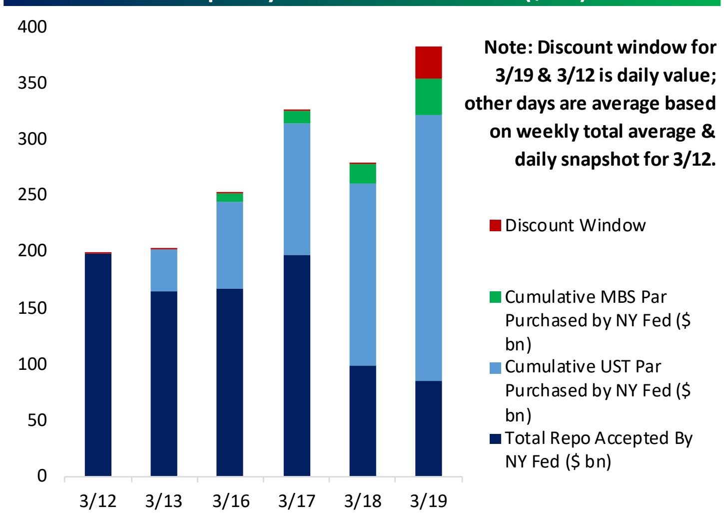
- The Russell 2000 never quite made a new high this year along with the broader market, but it did get pretty close.
- Like the rest of the market, though, it has been crushed. As of Wednesday's close, the Russell 2000 was 43.1% below its all-time high which ranks as the third-largest decline from a record high.
- The only two periods where the Russell saw a larger decline were in October 2002 when the drawdown reached 46.1% and then in March 2009 when the selling finally stopped at 59.9% on March 9, 2009.
- If the Russell 2000 were to match either of those prior two periods in terms of magnitude, it would have to fall an additional 4.3% to match the decline of October 2002 or 28.9% to match the decline of March 2009.



Just as we've seen in global financial markets, actions by the Federal Reserve this week were unprecedented in its history, and below and on the following pages we'll provide a brief recap.

- First, the Fed has committed to offering large-scale repo funding to the Street.
- It's important not to focus on the announced size of those programs, because they're much larger than actual demand for funding.
- Accepted repo across various terms (overnight out to three months) have run from $200bn last Thursday to $85bn on the 19th, offset by the purchase of bonds on an outright basis.

Fed Liquidity Provision: Past Week ($ bn)

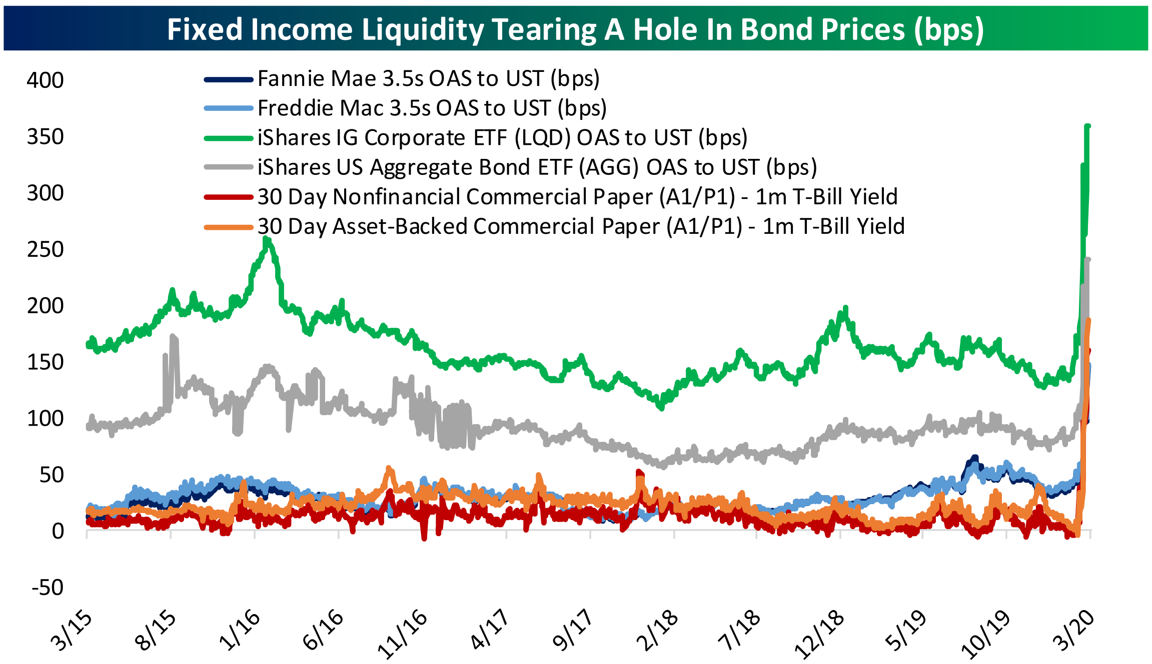


- As shown in the chart at left, the purchase of securities as part of the new QE program is "crowding out" repo funding by removing bonds from the balance sheet of dealers.
- Finally, we include discount window lending, a program where the Fed cut rates last weekend.
- All of these key programs increase the volume of reserves in the financial system, raising liquidity for the financial markets and real economy alike.
- There are other liquidity programs at work as well, which include commercial paper purchases, money market funding, and financing of non-government securities at favorable rates.
- We'll discuss those in more detail on the next page.
- Before we do, we want to highlight the program the Fed has introduced to provide dollar liquidity around the world economy as well as reserves which can't leave the US.
- Longstanding dollar swap facilities offer loans of dollars to other central banks, backed by loans of that economy's currency, which can then be loaned by the local central bank to its financial system.
- Five existing swap lines with central banks from the Eurozone, UK, Canada, Japan, and Switzerland (unlimited size were joined by four EM central banks (Singapore, Mexico, Brazil, Korea) and five DM central banks (Denmark, New Zealand, Australia, Sweden, Norway); the 9 new central bank counterparties can draw up to $60bn in swaps each across week and 3 month terms.
- Eurozone banks have already accessed a record amount of dollar funding via the ECB this week, with an uptake bigger than it was during the worst of the 2008 crisis or any period since.
- For now, only $45mm in swaps were taken up through Wednesday, but that number could eclipse the $580bn level they hit in Q4 of 2008.

Pardon the verbiage, but there's a lot to go through on the other Central Bank actions.

- In addition to providing liquidity through repo, QE, and the discount window, the Federal Reserve has also sought to provide liquidity in fixed income markets.
- There are three facilities being introduced to accomplish this.
- First, the Commercial Paper Funding Facility (CPFF) is a facility that will buy the highest-rated tier of commercial paper at 200 bps spread, capping the degree to which spreads can rise in those funding markets.
- The facility has $10bn of equity capital from the Treasury; all other funding will be loaned from the Federal Reserve.
- This measure won't do too much volume, but it will prevent a massive spread blow-out like the one commercial paper markets saw in 2008.
- Second, the Money Market Liquidity Facility (MMLF) offers loans to money market funds and dealers at advantageous rates based on collateral from the commercial paper, asset-backed security commercial paper, and municipal short-term markets.
- In exchange for assets, funds are given cash, which they can use to meet demands for withdrawals instead of selling securities; users pay a 125 bps rate for posting assets which are not liabilities of the government or government agencies.
- Dealers can post assets for funding which helps to reduce funding costs, but more importantly, trades with this facility get full capital and leverage relief; this feature allows dealers to take in inventory of securities without respect to constraints of capital and leverage.
- This final feature is absolutely key, because as we discussed earlier, fixed income market liquidity is basically gone.
- Which brings us to the final facility: the Primary Dealer Credit Facility (PDCF).
- This novel facility allows dealers to post collateral, which is then discounted (a "haircut") to account for quality and exchanged for reserves (cash); the loan is then charged a 25 bps interest rate.
- That is a repo transaction, but it's available for a wide range of assets that are currently struggling including highly-rated securitized debt, investment grade corporates, and even equities.
- But the PDCF doesn't have the capital relief attribute that the MMLF does; dealers still have leverage and capital impacts from their positions financed at the PDCF, and that constrains the amount of bonds they can buy and then immediately post to the facility.
- In our view, it would be immensely helpful for market liquidity to give all trades conducted with the PDCF full capital and leverage requirement relief.
- This would allow dealers to confidently buy and sell bonds, posting the inventories to the PDCF for warehouse funding, and not worry about the regulatory constraints which are currently hamstringing the liquidity of small balance sheets among fixed income dealers.
- Capital relief would not "fix" anything permanently, but it would allow markets to function more constructively than they have this week.

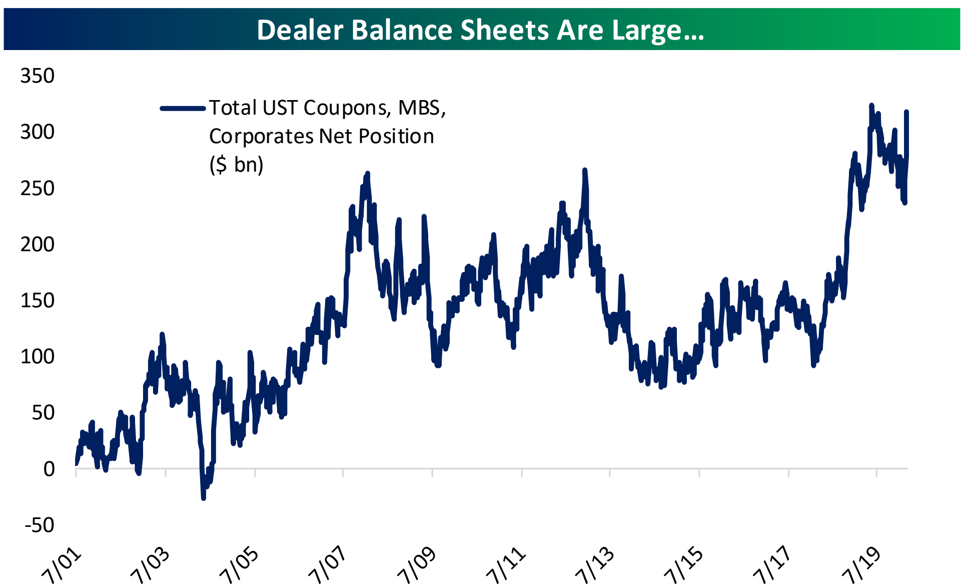
- Fixed income markets have been in a major crisis this week, with zero liquidity and collapsing spreads across a wide range of products.
- Typically, 3.5% coupon pools of mortgage bonds trade 25-50 bps over Treasury yields, but they've surged to a spread over 140 bps, while the portfolios of stable investment grade bonds held in LQD (investment grade corporate bonds) or AGG (broad Treasury plus investment grade corporate bonds) have spreads of 220 bps and 158 bps respectively since the equity market's highs.
- Even the safest, most stable corporate credit markets available (highest-rated commercial paper) are seeing huge spread moves: they're out 150-170 bps in March.

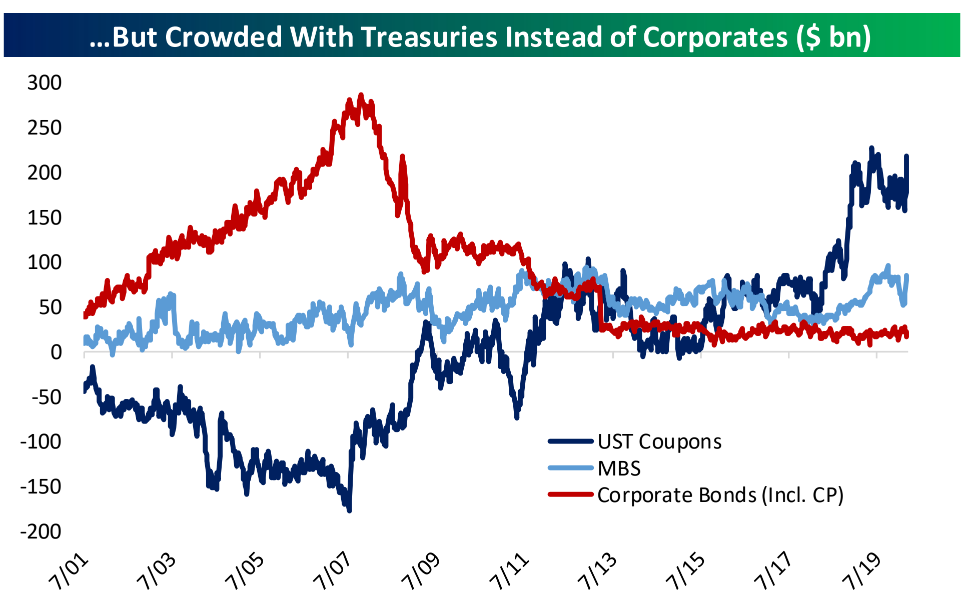


- The key commonality across all of these observations is that there are moves taking place in markets that have nothing to do with the outlook for the economy; mortgage-backed securities have a government guarantee, 30 day commercial paper from the highest-rated issuers is less risky than most bank deposits, and the broad investment grade universe is not as risky as high yield debt was a month ago.
- Instead, this is a sign of how bad liquidity has dried up thanks to huge shocks to various market participants that are included but not limited to: outflows from funds, forced de-leveraging due to volatility, the economic outlook, and the breakdown of fund structures including exchange-traded notes that have unwound amidst high volatility.
- As discussed, our view is that the Fed can and should step in to get these markets functioning again, and permit the movement of risk—or really, the lack of risk—from forced sellers in need of liquidity to buyers either currently interested in buying or who will be as stability returns.

The post-crisis demands of higher capital and lower leverage hurt dealer profitability but have also forced dealers to hold more Treasuries.

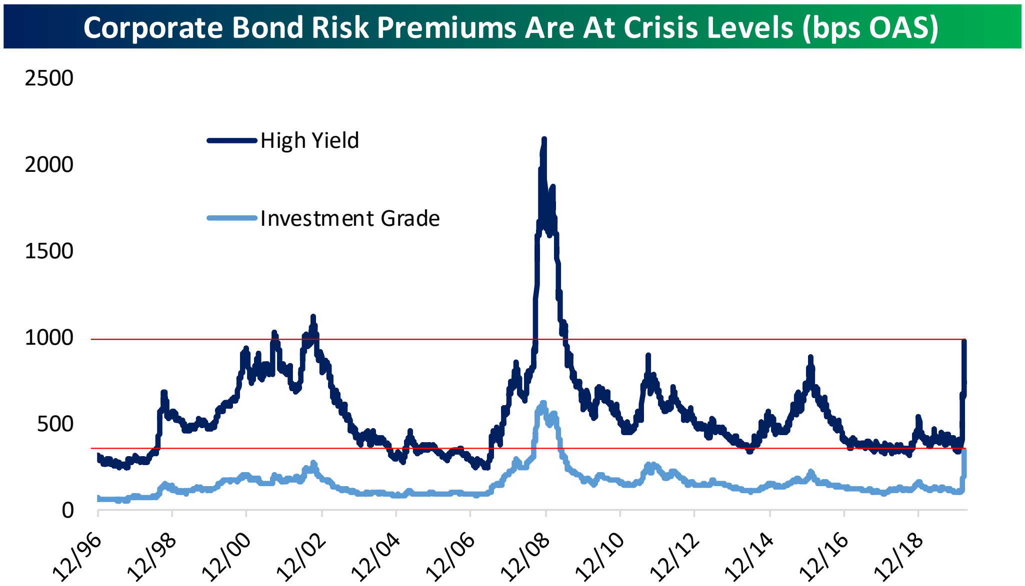
- As shown below, dealers hold more Treasury securities on a net basis than they did pre-crisis, by quite a dramatic margin.
- On the other hand, the composition of those securities at a net level by asset class; dealers were typically net short UST coupons pre-crisis, and are now massively long, while pre-crisis inventories of corporate bonds have been cut to nothing.
- Capital relief as discussed on the prior page would help to facilitate larger net and gross inventories of corporate bonds, and help restore liquidity to the underlying markets in question.



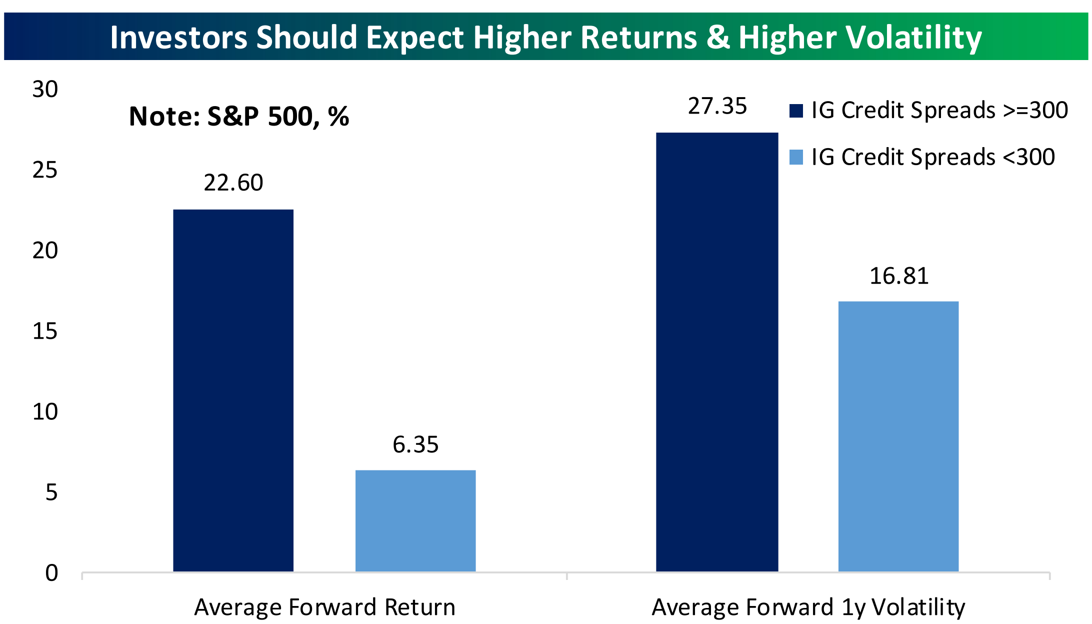


The shock of COVID-19 and spiraling credit market blow-ups have led to investment grade corporate bond spreads at the widest levels of the past 25 years, excluding the peak of the global financial crisis.

- For high yield bonds, spreads have blown out further than any point other than the post-tech bubble blow-up and the crisis.

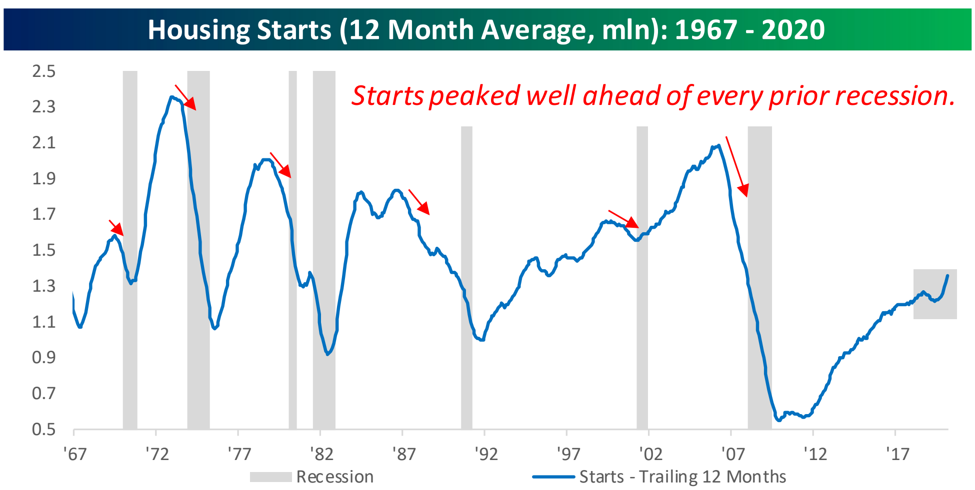


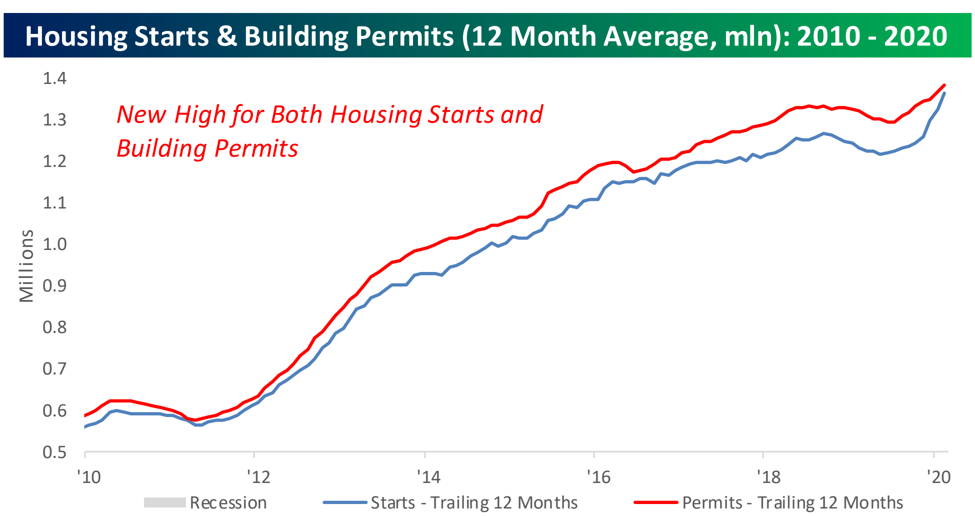
- Investors can expect both above-average returns and above-average volatility if investment grade spreads over 300 bps are any indication.
- Widening credit spreads ultimately sow the seeds of higher returns, but they create plenty of risk in the interim because stocks will still move aggressively with higher risk levels.



Turning to the economy (or what's left of it), there were a number of indicators released this week. Just about all of these indicators are backwards looking, so some of them don't reflect any of what's to come while others reflect only a little bit. We'll start with Housing Starts which didn't reflect any impact from the coronavirus yet, but will seriously decline in the months ahead. The point here is just to show how strong the backdrop was heading into all of this. Unfortunately, that's all a distant memory now. In the coming weeks, investors will need to be braced for some of the weakest economic datapoints they have ever seen.

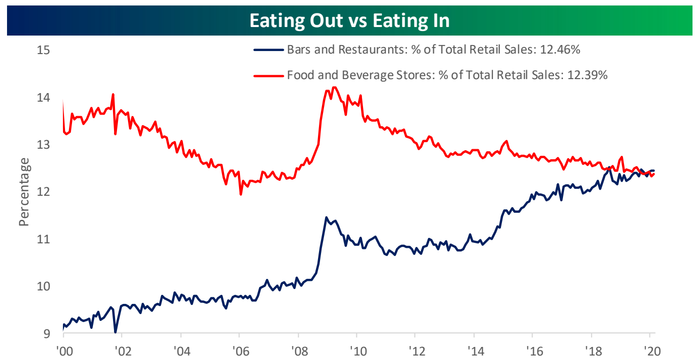
- Housing Starts came in better than expected this month rising to 1.599 million versus estimates for a level of 1.5 million.
- February's data took both the 12-month average of Housing Starts and Building Permits to new highs for the cycle.
- Given the new highs and the recession that's now upon us, the current cycle will mark the first time that the 12-month average of Housing Starts hit a cycle high right at the onset of a recession.



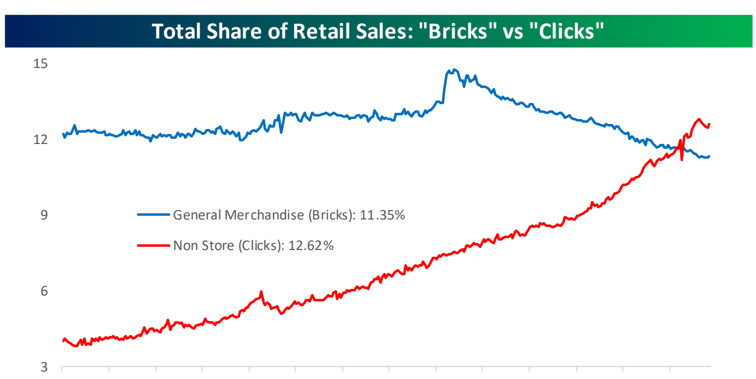


Retail Sales were also released this week and are already starting to show some signs of the impact of the coronavirus. The headline number came in weaker than expected, falling 0.5% versus estimates for an increase of 0.2%. Rather than go through all the details of the report, though, we just wanted to highlight some of the secular trends in the data and how they will be impacted by the new norms in a post-corona world.

- One of the trends we've been highlighting for years now is the growing trend of eating out versus eating in. Well, the only thing that could stop that one was a virus and the government's response.
- For years we have seen the Bars and Restaurants category of retail sales consistently gaining share at the expense of the Food and Beverage Stores category. Just last month, Bars and Restaurants saw their share of total sales rise to 12.46%, which was just below the record high of 12.47% from October 2018. That total share of sales was also 0.07% greater than the share of Food and Beverage Stores (12.39%) which is also right near record highs.



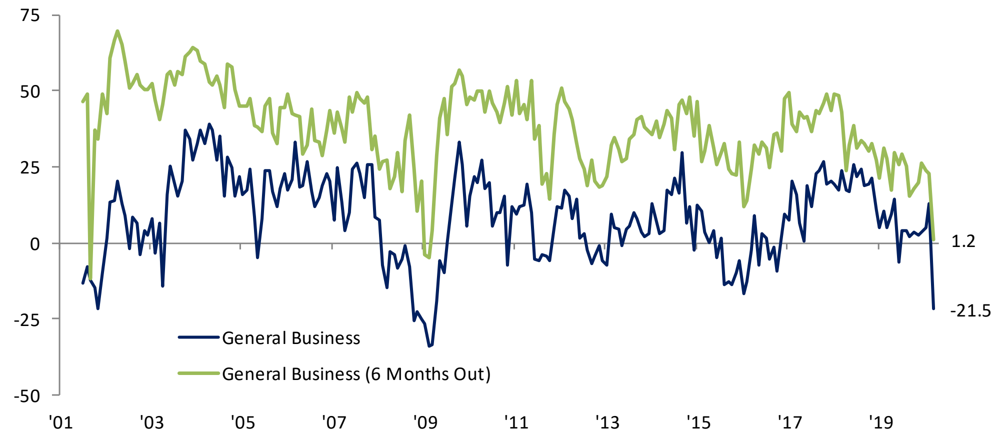
- With everybody stuck at home, more Americans will undoubtedly be eating at home in the coming months, and that is going to cause the share of total sales for Bars and Restaurants to come crashing down. The only question is whether other sectors besides Food & Beverage Stores will pick up the slack or if the pie will only get smaller as consumers reign in spending.
- The trend of dining out is likely to take a hit in the coming months, but one trend that will only accelerate is 'clicks' over 'bricks'.
- After overtaking the category of General Merchandise in September 2018, Nonstore retailers have been picking up share at a steady pace ever since. Through February, the current spread in share of 1.3 percentage points is not far from the record seen last September.
- With physical stores all over the country simply closing for an indefinite period in recent days, online is going to become the only option for consumers whether they can leave their homes or not.



The first reads on manufacturing activity for the month of March came this week from the NY and Philadelphia Fed Manufacturing indices, and the results weren't pretty.

- The NY Fed's headline reading on general business conditions experienced it largest drop on record in March, falling 34.4 points from 12.9 in February to -21.5. That is the first negative reading since June of last year, but the lowest level of the index for current conditions since March of 2009 during the financial crisis.

NY Fed Manufacturing: General Business Conditions: 2001 - 2020



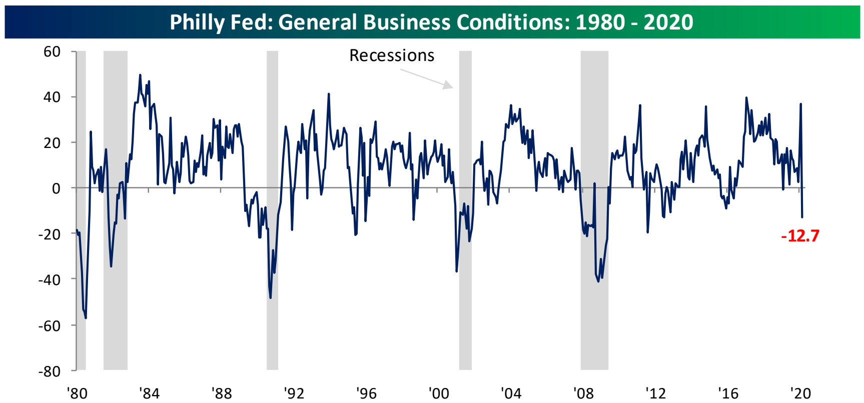
- Of the individual components, pretty much everything was weaker this month for both current conditions and expectations.
- Only two categories (expectations for unfilled orders and inventories) rose this month.
- Other than the headline index, the two categories whose declines stand out the most, and likely drove the large declines for the headline number, are for new orders and shipments. While other categories' declines are much more modest by comparison, they too are significant nonetheless.

NY Fed Manufacturing: Current vs Six Months Out: March 2020

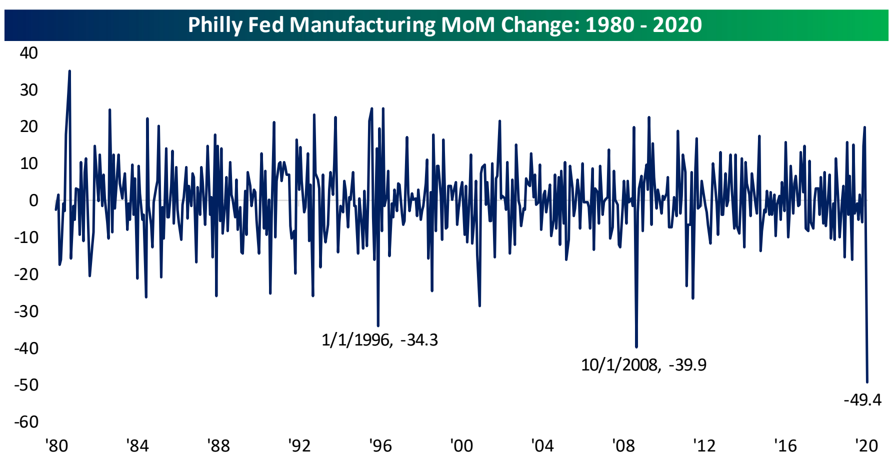
	Companies (%) Reporting Increase (Decrease)					
	Current Conditions			Six Months Out		
Category	**This Month**	**Last Month**	**1 Month Change**	**This Month**	**Last Month**	**1 Month Change**
General Business	-21.5	12.9	-34.4	-1.5	6.6	-8.1
New Orders	-34.4	8.1	-42.5	-10.6	-1.0	-9.6
Shipments	1.0	0.0	1.0	1.2	22.9	-21.7
Unfilled Orders	-9.3	22.1	-31.4	17.6	27.5	-9.9
Delivery Time	-1.7	18.9	-20.6	20.5	26.5	-6.0
Inventories	1.4	4.5	-3.1	2.2	1.5	0.7
Prices Paid	2.2	8.3	-6.1	0.0	3.0	-3.0
Prices Received	5.8	12.9	-7.1	5.8	-8.3	14.1
Number of Employees	24.5	25.0	-0.5	34.5	37.9	-3.4
Average Workweek	10.1	16.7	-6.6	17.3	22.7	-5.4
Capital Expenditures				10.2	15.0	-4.8
Technology Spending				3.6	8.3	-4.7

The read from the Philadelphia Fed wasn't any better than what was seen by the NY Fed.

- Just one month ago, manufacturing businesses surveyed by the Philadelphia Fed indicated the most optimistic outlook since early 2017, but in just one month that picture has been completely turned on its head. Falling from 36.7 last month to -12.7 this month, the headline index is now back to the same level it was at in July of 2012.



- A month over month change of this magnitude has never been seen in the history of the Philly Fed's report, and it's not even close as this month's decline dwarfed the decline from October 2008.



- Within the internals of the report, weakness was quite dramatic.
- Not a single component rose this month with multiple components, in addition to the headline index, falling into negative territory.
- The worst decliners were those measuring demand as the indices for new orders and shipments were down sharply.

Philly Fed: Overall & Components

Category	3/31/2020	2/29/2020	Change
General Business	-12.7	36.7	-49.4
New Orders	-15.5	33.6	-49.1
Shipments	0.2	25.2	-25.0
Unfilled Orders	-7.4	7.4	-14.8
Delivery Time	-9.1	2.7	-11.8
Inventories	1.7	11.8	-10.1
Prices Paid	4.8	16.4	-11.6
Prices Received	6.8	17.1	-10.3
Number of Employees	4.1	9.8	-5.7
Average Workweek	0.5	10.3	-9.8

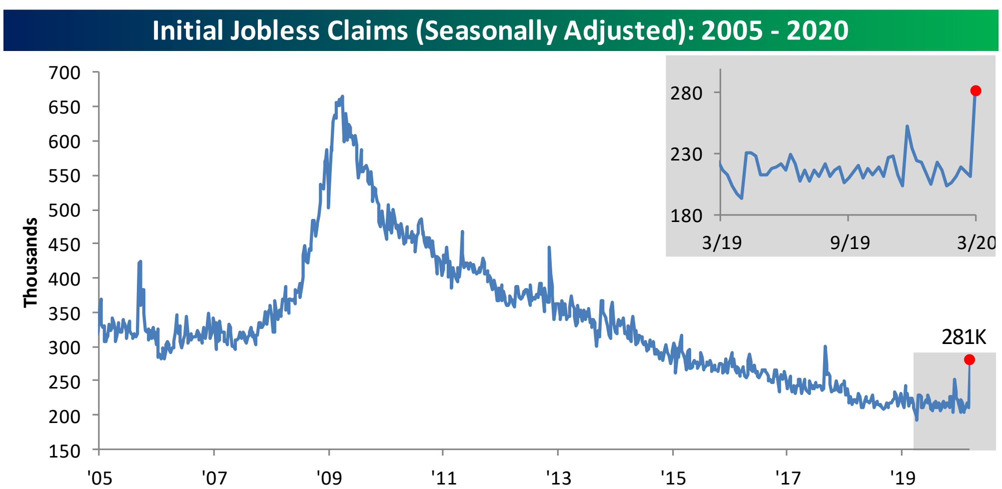
As could be expected and as we have been warning this week (see here and here), shutdowns aimed to thwart the spread of the coronavirus have begun to impact weekly jobless claims.

- Claims exploded higher by 70K to 281K this week. That is the largest weekly increase in the seasonally adjusted number since November of 2012 when they had risen 81K. Going all the way back to the beginning of the data in 1967, there have only been 13 total times (including the two aforementioned instances) that jobless claims have risen by 70K or more in a single week. The largest of these was a 172K spike in July of 1992. While this week's increase may have been large, just wait for next week's explosion.
- With the massive surge in claims this week, the indicator now sits at its highest level since the spike up to 299K in September 2017.

Claims Biggest WoW Increases

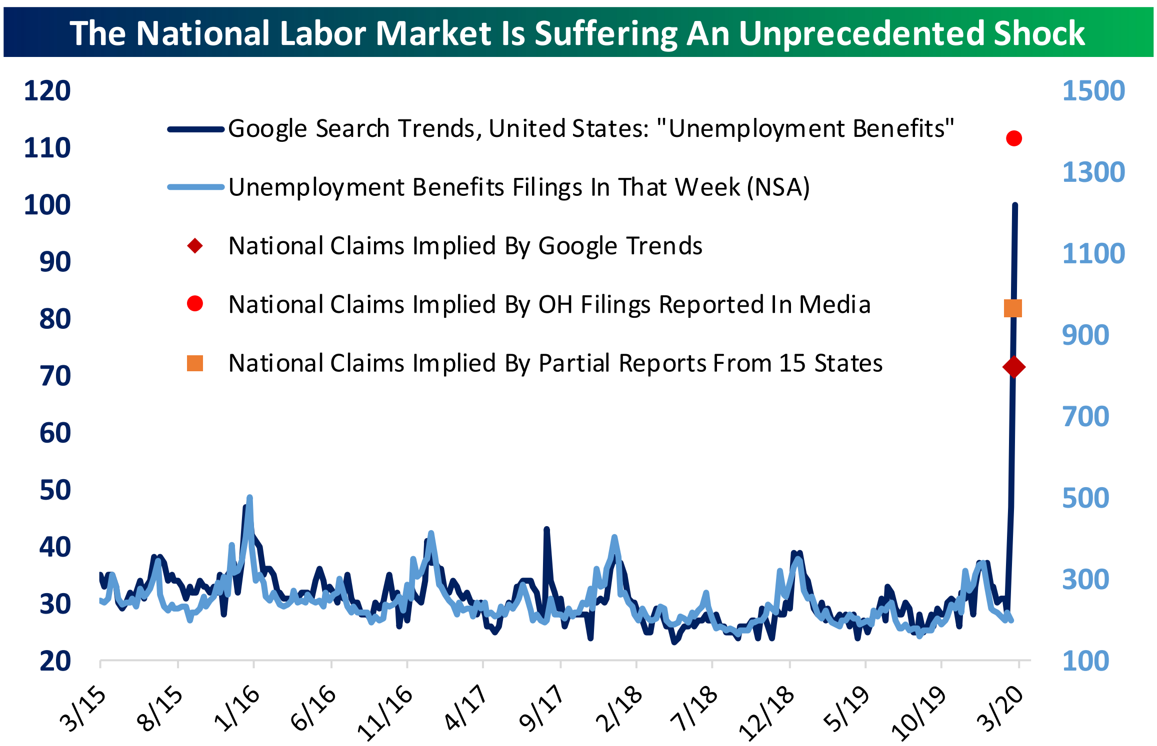
	Initial Jobless Claims ('000s)	
Date	**Level**	**WoW Change**
1/11/1974	340	71
1/10/1975	554	98
2/4/1977	565	143
4/6/1979	465	105
4/11/1980	544	80
11/27/1981	552	88
1/22/1982	564	75
7/24/1992	564	172
7/23/1993	415	80
1/19/1996	415	82
9/9/2005	422	96
11/9/2012	446	81
3/13/2020	281	70

- Other than that, the last time claims consistently came in around these levels was back in mid-2015. Given the fact that shutdowns across the country have ramped up over the past week, claims are not only likely to continue to experience large moves higher, they are guaranteed.



Jobless claims are already starting to feel the impact of the national economic lockdown, but there's plenty of evidence to show just how bad things are going to get in the coming weeks.

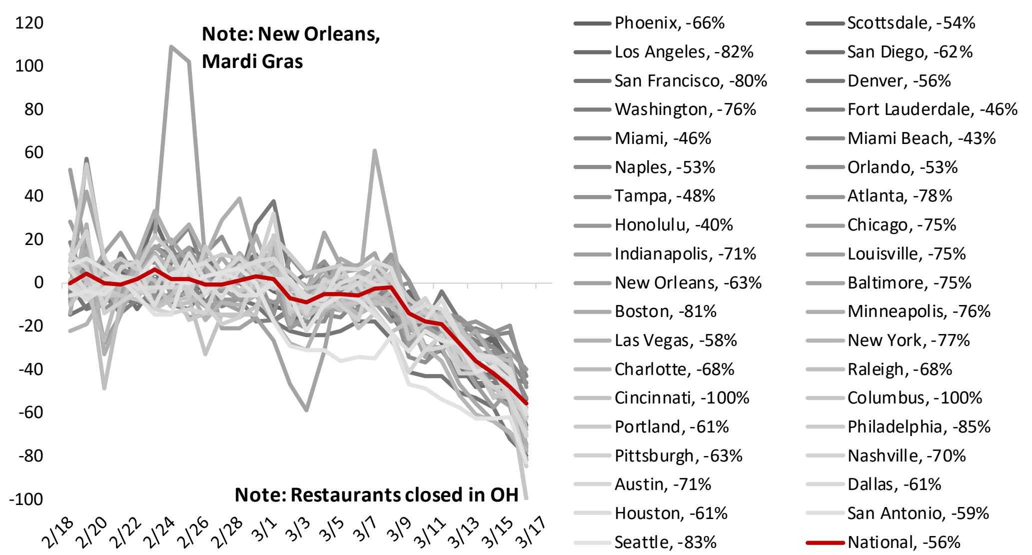
- Based on evidence in Google Trends search results and state unemployment claims filings, jobless claims are going to explode higher.
- This week, we saw partial reports from 15 different states, and even just looking at filings for 1 or 2 days in most cases, the numbers look absolutely brutal.
- Numerous states with diverse geographic and economic drivers as well as demographics are reporting thousands or tens of thousands of new filings in days, with more likely to come.
- The numbers we are getting so far suggest the potential for over a million jobless claims on the horizon.



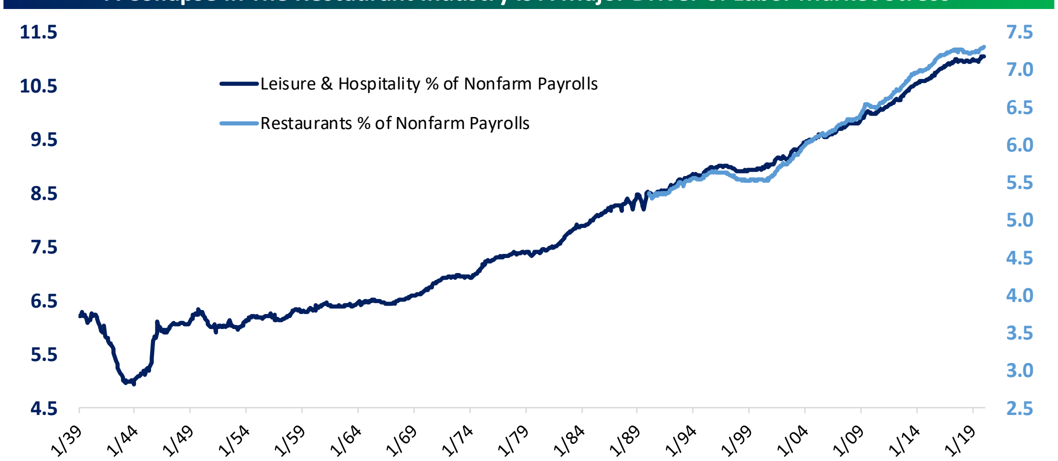
Dining trends at restaurants across the country haven't just declined, they've disappeared.

- In Ohio, restaurant closures mean that traffic in terms of seatings fell to 0 in Columbus and Cincinnati per data reported from OpenTable.
- What's more concerning is that the rest of the country is seeing declines in YoY seatings ranging from down 40% YoY to down 85% YoY; that number doesn't include deliveries or curbside pickups, but it indicates just how catastrophic the sock to restaurants currently is.
- Nationally, diner traffic mid-week was down over 50% YoY and deteriorating.
- For the labor markets, that falloff in demand is about to create a brutal set of effects given how labor-intensive restaurants are; they employ almost one in twelve workers in this country.
- The shock is a big hint as to how bad things will get in terms of data over the next couple of months, and why fiscal stimulus from Washington is of such critical importance right now.

OpenTable Restaurant Traffic: Seated Diners, YoY



A Collapse In The Restaurant Industry Is A Major Driver of Labor Market Stress

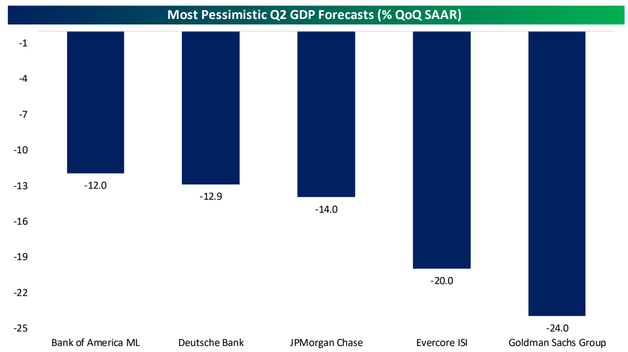


The big question with everything going on right now is what will be the impact on economic growth?

- Take for example the GDP forecasts from Goldman Sachs this week. On Monday, the bank's lead economist cut his Q2 GDP forecast to a decline of 5.0%. At the time, Goldman's forecast seemed a bit dire, but by the end of the week it seemed laughably optimistic.

- Throughout the week, bank after bank lowered forecasts for the second quarter with each one forecasting various levels of bouncing back.

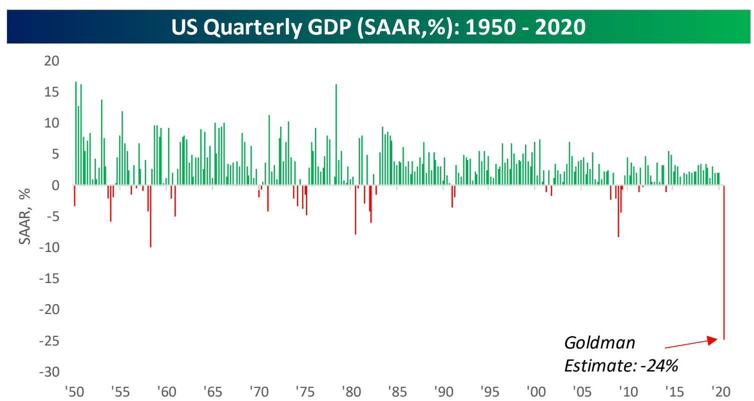
- Among the most negative forecasts we heard throughout the week, JP Morgan, forecasted Q2 growth to decline by 14% while Ed Hyman of Evercore ISI sees growth contracting 20%.



- In just the span of a few days, expectations for total growth for the entire economy were scalped by not tenths of a percent but tenths of a total!

- On Friday, forecasts for growth continued to decline as Goldman revised its negative 5% forecast down to negative 24% for Q2! There's a reason the stock market is down 30% in 30 days.

- The chart to the right shows US quarterly GDP going back to 1950. First of all, negative quarters for GDP have been uncommon for the US economy over time. In the 291 quarters since 1950, the US economy has only contracted in 41 (14%) of those quarters. 5% declines, however, are incredibly rare. Since 1950, there have only been six prior quarters where GDP declined by 5% or more with the most recent being back in December 2008.

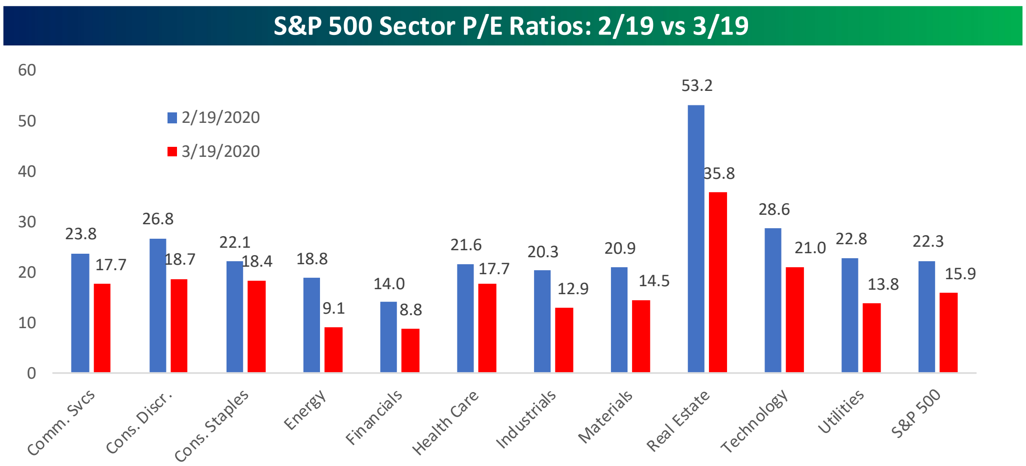


- A 25% decline? Well, that's never happened in the post WWII period. In fact, the next closest quarter in terms of negative growth was 10% in 1958.

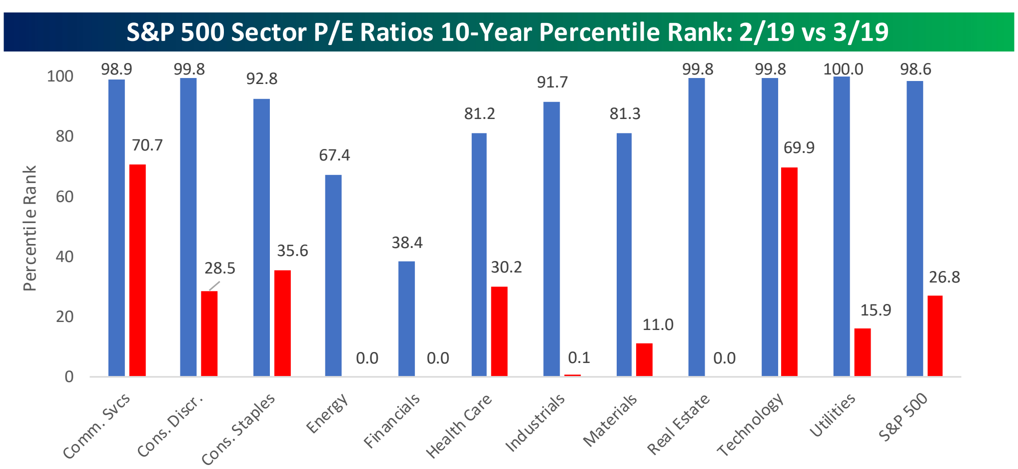
- Obviously, the circumstances surrounding each contraction in GDP is different, but prior quarters where there was such a large shock to the system were typically not 'one and done' events. In fact, all six of the prior quarterly contractions of 5% or more were either immediately preceded or followed by another quarter of negative growth averaging a decline of over 2%.

Theoretically, the S&P 500's valuation has come in substantially. The reason we say theoretically, is because no one has any idea what earnings will actually be. Based on just the next few quarters of earnings, valuations have actually probably gone up since earnings will likely fall even more than price. On a longer term basis, though, future earnings are cheaper now than they were a month ago.

- The chart below compares the S&P 500's P/E ratio now (red) to where it was a month ago (blue).
- For the S&P 500, the trailing P/E ratio dropped from 22.2 down to 15.9.
- For other sectors, the declines have been even steeper. Energy has seen its P/E cut in half, and even the Utilities sector has seen its valuation contract by a full 9 points.



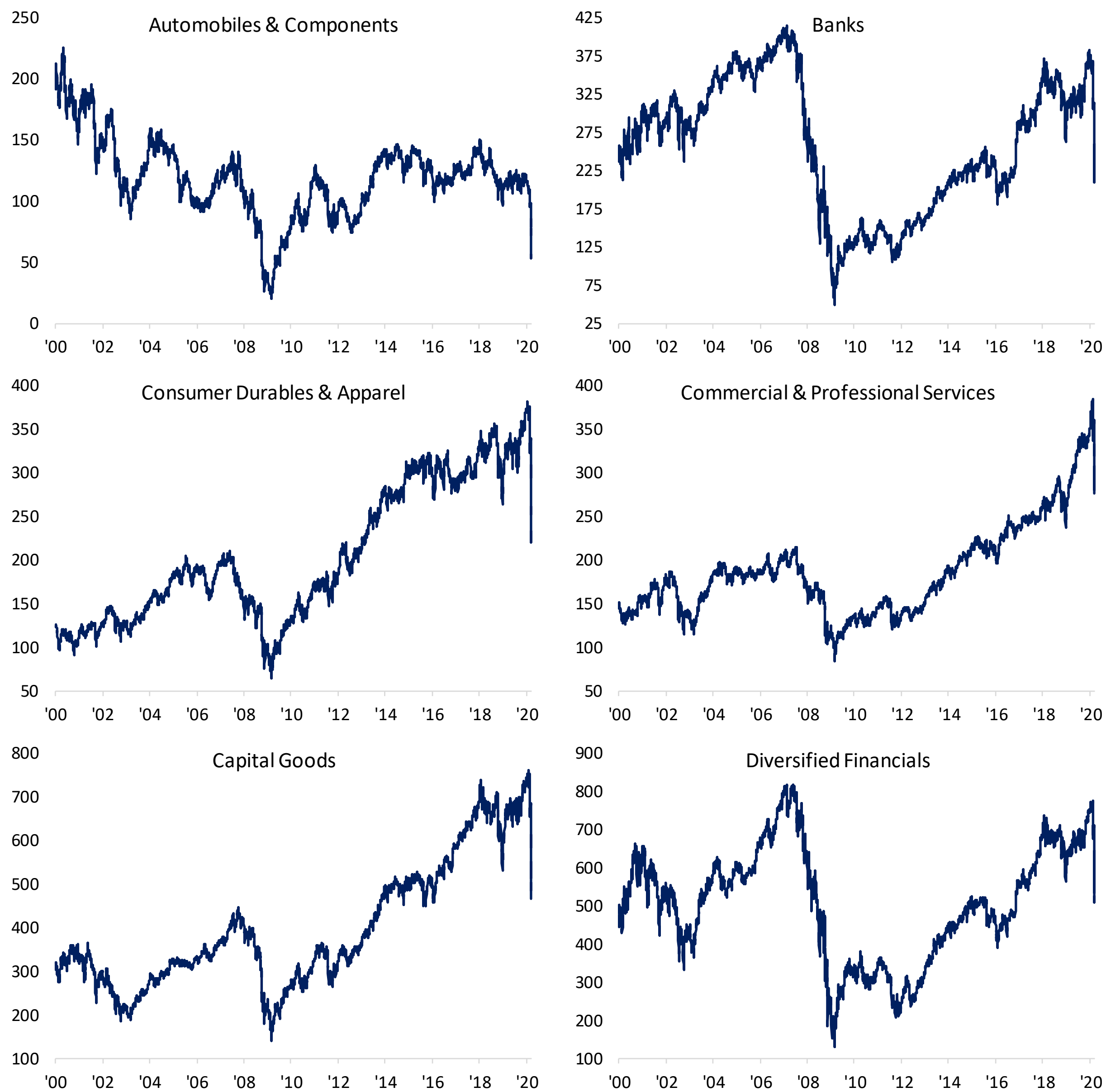
- With valuations contracting, current P/E ratios relative to historical averages have contracted.
- On 2/19, the S&P 500 and five sectors had P/E ratios that were in the 99th percentile relative to their range of the last ten years.
- As of now, only two sectors now have valuations that are even above the 40th percentile!
- In the Energy, Financials, Industrials, and Real Estate sectors, valuations are below the 1st percentile.



With every short-term trend in the equity market now broken, looking at price charts from a wider angle helps to put the moves we have seen in the last month into a little better perspective. In that regards, below and on the following pages we show 20 year price charts of all 24 S&P 500 Industry Groups.

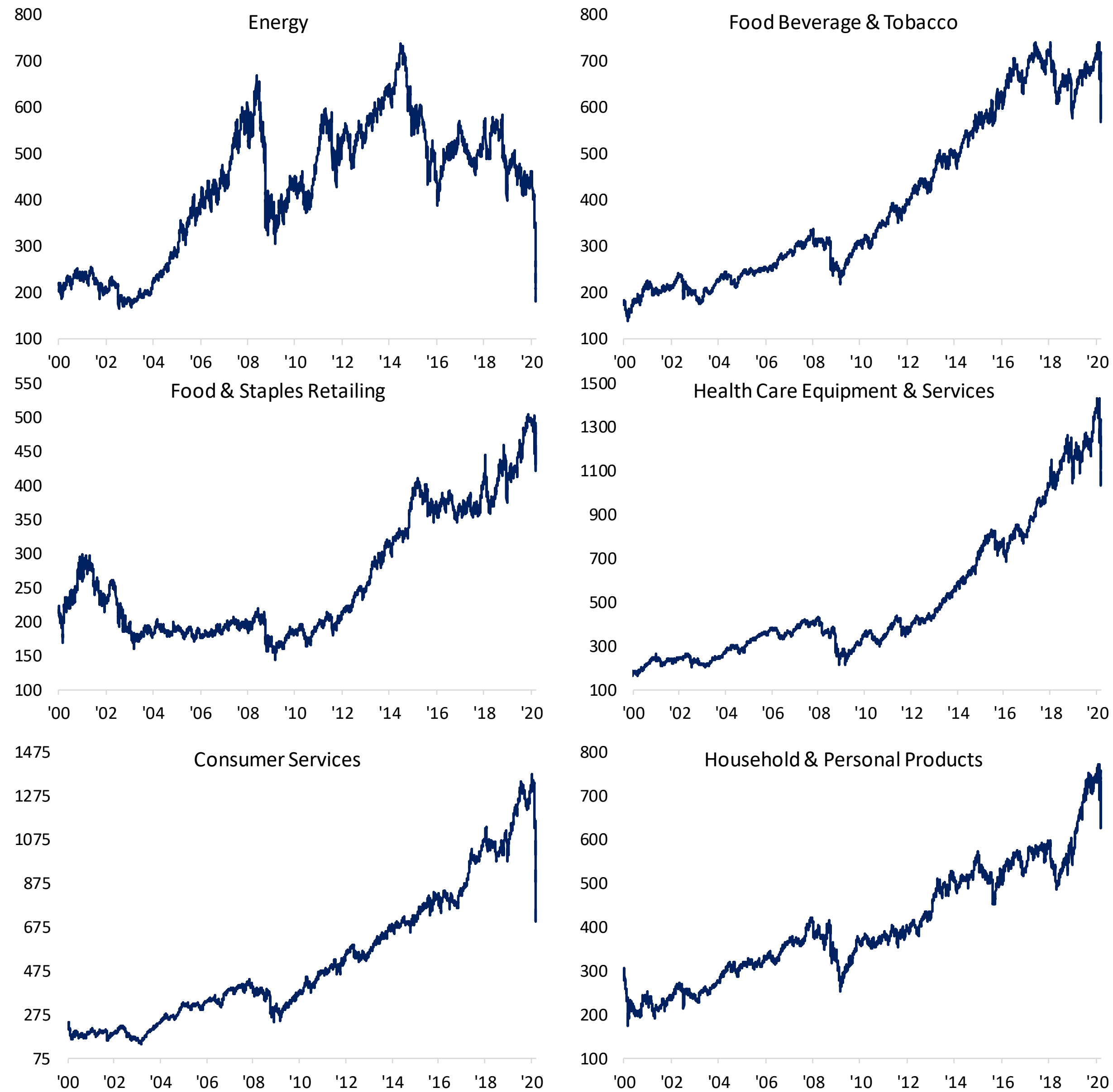
- Autos are now at the lowest level since 2009, and at this point, the lows from the Financial crisis are the next level of support.
- For the majority of other groups shown, though, the only one that has yet to break below its 2016 low is Consumer Durables and Apparel.

S&P 500 Industry Groups - Since 2000



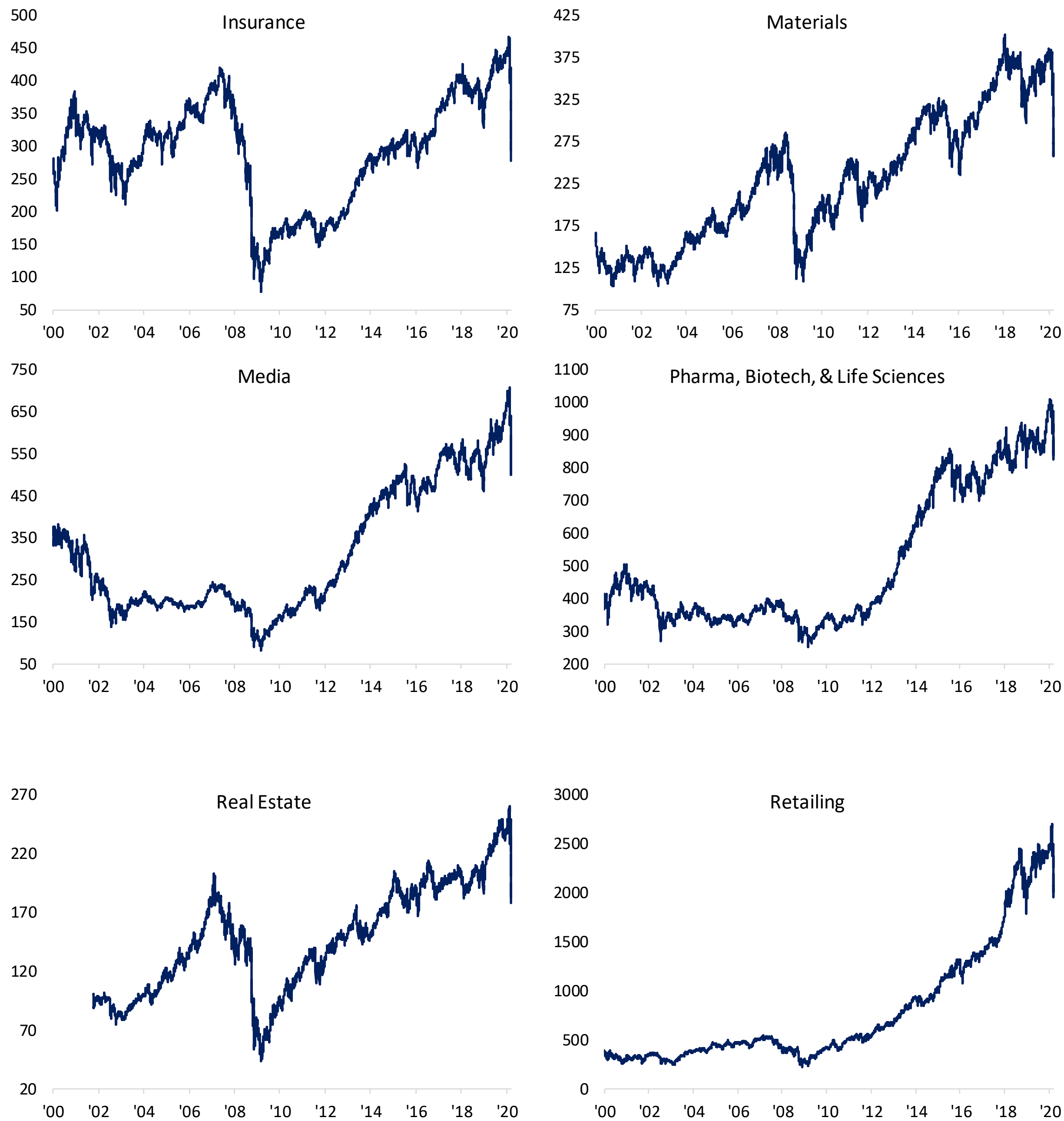
- The Energy sector has not only broken below its Financial crisis lows, but like crude oil in general is at its lowest levels since 2002.
- Outside of Energy, Consumer Services, which is comprised of Hotel and Leisure stocks, is the only other group that has broken down below 2016 levels.

S&P 500 Industry Groups - Since 2000 (cont'd)



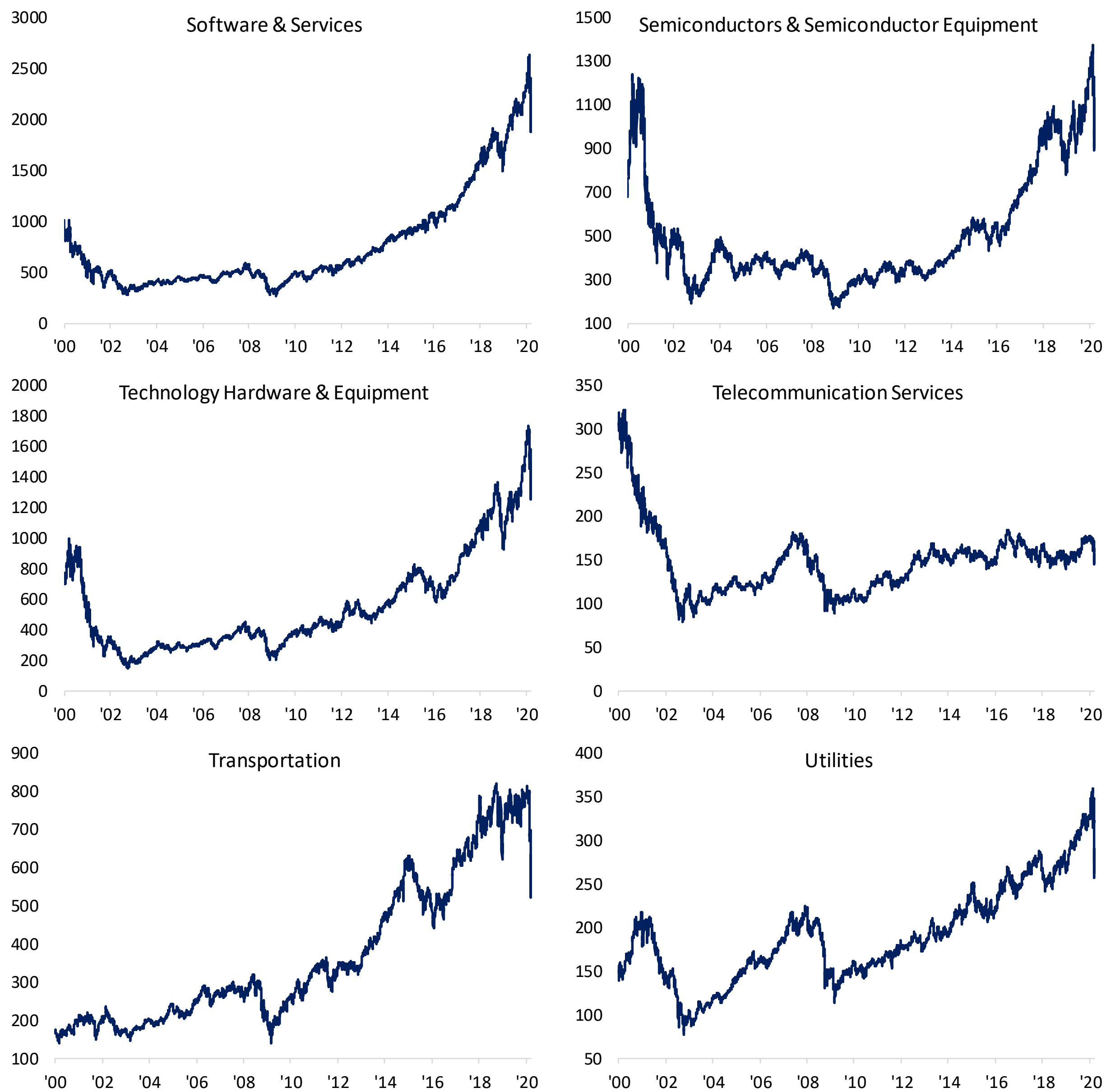
- Stocks in the Insurance industry had only just broken out above their 2007 highs, but have traded lower in a straight line.
- For just about every other industry group listed, the lows from 2015/2016 remain in place.
- Given the health pandemic, Pharma stocks have barely seen a dent, and even Retailing related groups have held up well, but that's almost entirely due to the relative strength of stocks like Amazon (AMZN) and Walmart (WMT).

S&P 500 Industry Groups - Since 2000 (cont'd)



- Of the final six industry groups, the only one that has broken a long-term downtrend is Transportation. For the other five, longer term uptrends generally remain intact.
- Software and Services as well as Semiconductors have both seen sharp declines, but have yet to make lower lows on a long-term basis.
- In times of market weakness like we have seen in the last month, one would expect Utilities to perform relatively well. However, with unemployment set to skyrocket, and many Americans out of work, some of these Utilities may see an uptick in accounts in default.

S&P 500 Industry Groups - Since 2000 (cont'd)



To say that it has been an incredibly difficult investing environment over the last month would be an understatement, but for investors looking for ideas one idea is to focus on companies with strong balance sheets that have successfully weathered treacherous environments like wars and political upheaval in the past. Again, these aren't ideas for people looking to make a quick buck, but instead companies that have provided stability in the past.

- Through all of the events and turbulent times that have shaped modern history, there are a handful of stocks who have not only continued to pay shareholders, but grow their dividends regardless of the environment. While the current outlook remains as uncertain as ever thanks to the Covid-19 pandemic, if history is any indication these names can continue to weather the storm.
- To meet the requirement of being a dividend aristocrat, a company must have increased their dividend for at least 25 consecutive years. Of the 64 current members, there are ten that have done one better: doubling that requirement and raising their dividends for 50+ years. As shown in the table below, most of these have raised their dividends for 57 years through the end of 2019. The other two, Stanley Black and Decker (SWK) and Hormel Foods (HRL), have grown their dividends for 52 and 51 years, respectively.
- In addition to these long histories of raising their payouts, these names generally have healthy payout ratios indicating the further potential to return value to shareholders or at least weather any short-term hit to earnings. The only one with a payout ratio above 100% is Procter & Gamble (PG), but that was due to a one-time charge in the adjustment of its carrying value for its Gillette unit. Partially playing into why these stocks have such long histories of increasing their dividends, a number of them like HRL, Procter & Gamble (PG), Colgate-Palmolive (PL), Coca-Cola (KO), and Johnson & Johnson (JNJ) have products that have been staples in the average American consumer's daily life over the past 50 years. At the moment, thanks to coronavirus hysteria, local store shelves where you would find some of these companies' products are bare.
- The highest yielder of the group at the moment is 3M (MMM) with a dividend yield of 4.32%. That is in the 99th percentile of dividend yields for the stock since 2000. While Emerson Electric (EMR) and Genuine Parts (GPC) also yield over 4%, Dover (DOV) and Coca-Cola (KO) also have yields in the 90th percentile of the past 20 years. Most of these yields are at such high levels due to the massive declines since the S&P 500's peak on 2/19. SWK is down the most of these since then having nearly been cut in half. On the other hand, Hormel (HRL) has held up remarkably well and is only down 2.75% since 2/19 and is only 3% off of its 52-week high.

Dividend Aristocrats With 50+ Years of Dividend Growth

Ticker	Company	Industry	% Chg Since 2/19	% Chg From 52-Wk High	Current Div. Yield	Div. Yield %ile of 20Y Range	Dividend Payout Ratio	Years of Div. Growth
MMM	3M	Capital Goods	-15.98	-39.01	4.32	99.6	72.56	57
EMR	Emerson Electric	Capital Goods	-35.33	-12.62	4.19	64.2	52.43	57
GPC	Genuine Parts	Retailing	-24.68	-13.99	4.17	90.0	71.55	57
KO	Coca-Cola	Food, Beverage & Tobacco	-22.62	-40.32	3.51	98.4	76.70	57
JNJ	Johnson & Johnson	Pharma, Biotech & Life Sciences	-9.66	-9.08	2.80	45.4	65.61	57
CL	Colgate-Palmolive	Household & Personal Products	-11.93	-35.01	2.61	88.7	62.06	57
PG	Procter & Gamble	Household & Personal Products	-7.84	-34.57	2.50	46.7	206.33	57
DOV	Dover	Capital Goods	-33.08	-23.08	2.47	96.4	41.63	57
SWK	Stanley Black & Decker	Capital Goods	-49.17	-52.34	3.24	89.0	42.06	52
HRL	Hormel Foods	Food, Beverage & Tobacco	-2.75	-3.03	1.94	65.5	45.93	51

As we head into the weekend, markets are quickly trying to adjust to life in a COVID world after falling more than 30% from their closing high in just a month. In the hardest-hit areas of the equity market, stocks in sectors like Energy, Consumer Discretionary, Industrials, and Financials are down more than 40% on average (-64% for Energy). Just about all discretionary activity has come to a stop, and only essential economic wants and needs are being met. Credit markets, meanwhile, have essentially seized. If we can't stabilize that, there's much more pain ahead.

But there is some reason for us to have hope. Yes, government officials from the local level up to the federal level have raced to shut down over the last week and continue to enact more stringent measures. Without minimizing the risk of the virus spreading, it cannot be overstated how much this type of action impact the economy. Essentially, we have put the economy into an induced coma. The stock market has reacted more to our reaction to the virus than the virus itself. Once everything is essentially shut, though, there is no way to go but up.

As we adapt and learn more about the virus in the days and weeks ahead, we will learn to live with it. Hopefully, just as quickly as we all raced to shut everything down, Americans will race to open back up in a manner that fits with life in a COVID world. No one wanted to be the last to close, and on the flip side, no one will want to be the last to open either. Yes, the virus will be here for many more months, but with testing, testing, testing and very successful treatments that are already saving lives, we can envision getting on with our daily lives again once we're all confident that we know exactly what it is and how to deal with and defeat it.

All of this said, we're not going back to the world we lived in prior to mid-February for a long time. Those that haven't accepted this yet will have to eventually adjust. You can't completely upend the US economy without major changes taking place. There will still be air travel, but we can envision passenger health screenings being required before boarding. The cruise industry will not recover for a long time. Your favorite restaurant may not re-open, or at least not in its current form. Home delivery and take-out will be the norm for awhile.

There will be massive shifts in employment as a large number of workers being forced to stay home now will not be back at their old jobs. But there will still be jobs. We'd guess that the Health Care industry just might be looking for workers right now?? The infrastructure of the economy is also still running, from shipments of goods to cashiers at our grocery stores. There's no way around job loss, but we will carry on. Americans out of work are an entrepreneurial bunch. Post-COVID businesses are being dreamed up as we type this and when we see them, we'll be hit with the thought of "why didn't I think of that." We're staying optimistic and looking ahead. It's really the only way.

Back on March 11th, we published a list of 21 Stocks for the COVID Economy and these stocks have done very well since then. From online pet delivery companies like PETS and CHWY, to key COVID drugmakers like REGN and GILD, there are still stocks that are seeing buying right now.

This week, we added three more stocks to the list -- AKAM, ELY, and HD.

Akamai Tech (AKAM) is an internet infrastructure company that helps keep our digital economy running. You may wonder why Home Depot (HD) would be a COVID stock, but with everyone suddenly home with nothing to do on weekends, home improvement projects and lawn care will move up on the "to-do" list.

Home Depot also has one of the better online infrastructures in place among retailers, so most Americans don't even need to roam the aisles to get what they want. With HD down from $260 to $155 in a month, its dividend yield has moved up to 3.75%.

Finally, if there's one sport that you can still play while practicing social distancing, it's golf. As we eventually come out of lockdown, start going outside again, and the weather gets nicer, people will likely still be asked to hold off on large gatherings. Golf courses should be able to remain open in a COVID world, and a stock like Callaway Golf (ELY) could be selling a lot more clubs and balls as the weather heats up and checks start showing up in the mail. It has also been absolutely pummeled throughout this crash, falling from $22 down to $5 and change as of this morning. Just make sure you don't touch the flag stick or rake your trap!

Stocks for the COVID Economy

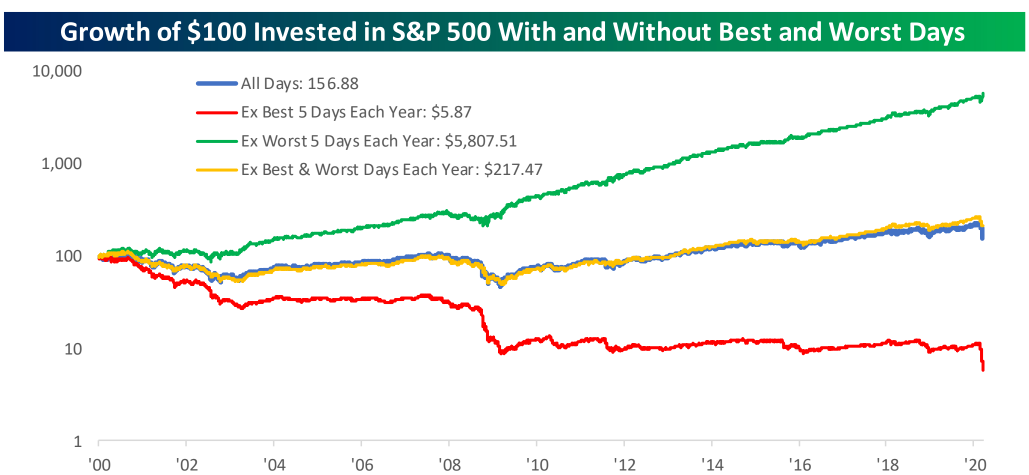
Ticker	Company	Industry	3/11	Current	% Chg
CLX	Clorox	Bleach/Wipes	158.70	181.81	14.56
GILD	Gilead	Corona Treatments	68.58	75.45	10.02
REGN	Regeneron	Corona Treatments	431.89	458.00	6.05
TDOC	Teladoc	Digital Doctor Visits	118.80	145.78	22.71
WORK	Slack	Digital Workforce	21.35	22.26	4.26
ZM	Zoom Video	Digital Workforce	109.47	134.49	22.86
PTON	Peleton	Home Exercise	19.51	22.23	13.92
CHGG	Chegg	Online Education	36.80	32.83	-10.79
TWTR	Twitter	Online News	26.78	24.46	-8.68
PETS	1-800-PetMeds	Online Pet Health Care	25.63	25.67	0.16
CHWY	Chewy	Online Pet Shopping	22.77	29.67	30.30
AMZN	Amazon	Online Shopping	1676.61	1872.83	11.70
FB	Facebook	Social	154.47	153.11	-0.88
CPB	Campbell Soup	Staples Food	47.68	47.72	0.08
HRL	Hormel	Staples Food	40.08	45.18	12.72
JNJ	Johnson & Johnson	Staples Health	125.41	124.25	-0.92
PG	Procter & Gamble	Staples Health	101.84	105.87	3.96
NFLX	Netflix	Streaming Content	315.25	342.15	8.53
ATVI	Activision	Video Games	54.56	53.43	-2.07
EA	Electronic Arts	Video Games	93.35	91.12	-2.39
TTWO	Take Two	Video Games	108.36	104.38	-3.68
				Average	**6.31**
				S&P 500	**-16.50**
New Additions					
AKAM	Akamai Tech	Internet Infrastructure		94.88	
ELY	Callaway Golf	<10 Person Leisure		6.02	
HD	Home Depot	Home Improvement		157.35	

Finally, earlier in our discussion of 30% drawdowns for the S&P 500, we noted that while the market often sees further declines in the short-term after first falling 30%, once the market bottoms, the rally is almost as violent as the decline. This isn't meant in any way as a reason to load up the boat on stocks. As you can see in our Model Portfolios, our cash levels are actually very elevated at the moment. What we do want to stress, however, is that investors should stick with their plan, and not try and time the market's every turn. As we noted in the outset of this report, day to day volatility in the last week has been unprecedented, and if you try and time the market, you'll likely buy and sell at the wrong times and miss out on the biggest gains and get stuck with the bad days.

To illustrate this, the chart below shows how an investor would have fared had they invested $100 in the S&P 500 under one of four different scenarios. In the first, the investor would buy and hold. In the second, an investor missed out on the five worst days of each year. In the third scenario, the investor missed out on the five best days of each year, while in the final scenario the investor misses out on the five best and worst days. Obviously, this a theoretical exercise, but it illustrates the point of trying to time the market.

Looking at the results, using just a buy and hold strategy, a $100 investment back in 2000 would be worth nearly $157 dollars today. If the investor were somehow able to miss out on the five worst days each year, that $100 investment would be worth nearly $6,000! That's why trying to time the market is such an enticing strategy. The pitfall, however, is that if you miss the five best days of each year, your $100 investment would be worth only $5.87 today. That's a decline of over 94%! Talk about a haircut! Speaking of which, if you live in many parts of the country and you need a haircut, you better go quick or you'll be out of luck!

Please try to have a good weekend!



[Bespoke Model Growth Portfolio]

[Bespoke Model Dividend Income Portfolio]

[Bespoke Tactical Macro ETF Portfolio]

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