

Hamilton-Bates

Market Update

March 27, 2020

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First the Good News

Anywhere from 1/3 to 1/2 of the world population is in some form of lockdown and social distancing measures. The virus continues to spread, and the next few weeks are likely to see 'peak bad news' in terms of the virus.

However, it now looks like the economic catastrophe the Virus has triggered could be shorter than many feared. China looks to be nearly 'through the pipe' on the virus, and they are in the process of ramping up while trying to minimize renewed outbreaks.

Social distancing and lockdowns have largely worked. The epidemiologists from Imperial College, whose report triggered the UK response, now say deaths could be less than 20,000, rather than the near 500,000 once feared. Sadly, global health services will still be tested to their limits over the next few weeks. There will still be a large number of people who get a very serious and life-threatening disease, but that's a fall smaller proportion of the population than originally feared.

It's all down to testing – or the lack of it. We need to figure out how much of the population has had the disease with little or no symptoms and thus built up immunity. Another bit of good news is that the mortality rate has been coming down. Korea is less than 2%, Germany 0.5%. Some experts expect the mortality rate will be 0.30%-0.70%. That's about 5-10 times higher than the flu, but much less than MERS or Ebola with 10-30% mortality rates.

Once we get more data on just how wide the infection is – then governments will be able to reassess the effectiveness of lockdown as against other policies to ensure against future waves. If we have a high number of infected people, say 30% plus, then it's possible we could see government allow many now recovered workers to return to work, but with many social distancing measures remaining in place. As a result

economic activity could pick up from a dead stop now, and build up starting in May and the summer months. This is all supposition at this point. There are rumors of more cases breaking out in China but being under-reported. We won't know for sure till we get proper testing in place. We will learn much in the over the next two weeks, as we look for 'peak' virus number in Italy and places like NY.

We are from the Govt and We are Here to Help

Unlike 2008, when it took several months to get monetary help from the Fed and fiscal support from Washington, we have seen support come from VERY quickly this time around. The Fed has moved to support the bond markets with massive renewed QE, and they have cut rates to zero. Fiscal support is coming from Washington, including direct payments to individuals starting in April. These early moves should backstop the economy and market, but won't prevent what looks to be a recession from occurring. What it can do is help reduce the severity and duration.

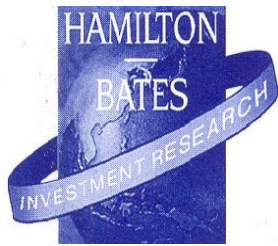
The Bad News

We have witnessed the fastest 10%, 20%, and 30% declines in history. The markets have finally found some footing. The Fed quickly moved to action and a fiscal support package was put together in bi-partisan fashion. A 'very oversold' market took solace, and the snap-back this week sets up as the strongest weekly gain since the 1930s.

The bad news is the bad market probably isn't over. The low seen around 2200 on the S&P and 18,300 on the DJIA could be the low, but we are likely to see more volatility over the next few weeks at least. Typically bear market lows need to be re-visited with one or more 'false rallies' before all is said and done. The recent lows may even be broken. **Based on what we see, the market low is likely to be in April if it hasn't been seen already.**

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We believe the 30-40% declines seen in many indexes and individual stocks is probably the bulk of the damage, and that downside risk from the recent lows is fairly limited (perhaps 10%).

Managed Accounts

We were underweighted in stocks ahead of the decline, with sizable cash and bond holdings. As a result our managed accounts by and large fared MUCH better than the market during this period of turbulence. Managed portfolios as a group fell 1/3 to 1/2 as much as the market. We have been slowly building stock holdings during the decline and believe the market is past the 'water decline' phase and into the 'bottoming' phase of the bear market. This bottoming phase is likely to take weeks to unfold, if not a few months depending on the news-flow on the virus.

Its not time to jump in with both feet, but investors on the sidelines can begin to make plans for the upcoming bull market, because there will be one.
After every bear market comes a bull market.

The decline across the board has left many companies at very compelling prices, we favor large-cap technology names. We put a small list together to give folks an idea of what we look for. Think of the companies you can't imagine the country without.

Many of these names are in Staples, Utilities, Pharma, and Technology. A couple are not but companies like UPS are still working and may get busier. This of course is not an exclusive list- there are plenty of good companies to buy now – but it gives you an idea of what we look for.

Company	Symbol	Sector
Apple	AAPL	Consumer/Tech
Abbvie	ABBV	Pharma
Amazon	AMZN	Retail / Cloud
Amgen	AMGN	Biotech
Bristol-Myers	BMJ	Pharma
Cisco	CSCO	Tech
Dominion	D	Util
Disney	DIS	Digital Content
Duke Energy	DUK	Util
Google	GOOG	Tech
Intel	INTC	Tech
CocaCola	KO	Staples
Merck	MRK	Pharma
Microsoft	MSFT	Tech
Nvidia	NVDA	Tech
Proctor-Gamble	PG	Staples
UPS	UPS	Transportation
Verizon	VZ	Comm

Take care of yourself and family. If anyone has any questions –anyone, they can direct email me at abates@hbir.com. I am happy to answer questions or help anyone as needed during what could be a very stressful time.

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