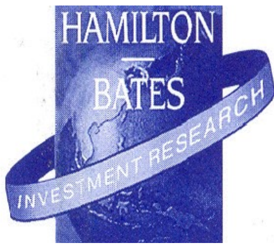


Hamilton-Bates
Market Update

June 12, 2020

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

Climbing Back but Needing a Break

After bottoming in late March, the second quarter has been very good for stocks, with the S&P 500 up 25% since 3/31/20. The NASDAQ Composite recently hit a new all-time high and the S&P briefly turned positive for the year. Thus like man in the picture, the market has climbed nearly all the way back and is nearly there– or was before this week.

Just as climbing takes a lot of energy and burns lots of calories, the stock market expends energy on the way up too. A great deal of energy or buying power has been spent pushing stocks this far over the past 2 months, and a pullback should not be a surprise. But, even though the speed and magnitude of the recent move up has left the equity market vulnerable to a pullback, overall we view the developments of recent weeks to be healthy. The signs of speculation that have taken place in peripheral issues isn't enough to end what should be a larger up-trend. For example, companies that are in bankruptcy have been moving up a 100%- which makes no sense since in bankruptcy the equity ends up at zero. A pullback here could help clean some of that craziness out.

Our belief is that there is plenty of institutional money that will be tempted back into equities during the upcoming mid-year allocation window, especially if we see a decline. We would expect any pullback that takes place is likely to stop around key support at 3000-2900 on the S&P 500. We are nearly there now.

Earnings and Economic Data

Earnings and economic data remain weak, with the US economy entering Recession for the first time since 2009. However, investors have been heartened by numbers that show things not being as bad as once feared, and now hopefully on the path to returning to as close to normal as we can.

Last weeks Jobs Report, for example, showed surprising job creation, and an unemployment rate of 'just' 13% rather than the 20% expected. Along with earlier "medical revision" that saw the worst case estimates of Covid cases and mortality ratcheted down radically from mid-April onwards has boosted enthusiasm. We are of course still dealing with levels of death and economic destruction that were unimaginable at the start of 2020, and an uncertain future as well.

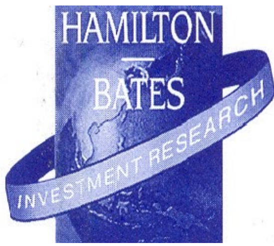
The only reason we will have sustained unemployment is that we're paying people more to stay home than they would make returning to work. That's happening—people are making more money on unemployment, and the $3 trillion bill that just passed the House of Representatives would extend that to January.

At some point, the job losses will turn into job gains. It may not be a V recovery, but it will not be an L, either. Imagine the July payroll report, when the economy adds back a couple of million jobs. The relentless rise of risk-on markets since late March has been fueled by a re-appraisal of quite how bad things might get as well as a stunning degree of monetary and fiscal stimulus. The Fed is now once again the market's best friend and the power of their return to QE cannot be overstated.

Market Outlook

The market has come a long way, but now looks in need of a consolidation to recharge after a near record run over the past two months. Some investors believe there could be another wave of volatility. We are not so sure there will be. If you ask someone who lived through an earthquake what they fear most, they will

Disclosures:
This report has been produced and compiled by Hamilton-Bates on a best efforts basis, and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Hamilton-Bates and readers are expected to make their own investment decisions after consulting with their personal financial advisor and without reliance on this report.



Hamilton-Bates
Market Update

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

probably say: earthquakes. But aside from a few aftershocks, earthquakes are independent events. And after a big one things tend to go quiet.

What we just lived through in the financial markets was an earthquake, a big one, like a 9 on the Richter scale. With everyone so concerned now with another financial quake, there may not be one.

We remain optimistic on the stock market and the economy. But this flies in the face of some pretty significant bear. Last week, hedge fund billionaires Stan Druckenmiller and David Tepper said the stock market was the most overvalued, ever. Maybe so, but valuation hasn't mattered in a while. As for stocks, no, stocks are not especially cheap, and probably more richly valued than they should be under the circumstances. But in our opinion sentiment among institutions is bearish, and the return of that money to the market could propel stocks much higher as things eventually normalize.

The stock market always does what surprises people the most. Right now the 'smart money billionaires and hedge funds' are bearish but small retail investors are partying. Our suspicion here is that the smart hedge fund community has pretty elevated short exposure, and plenty of institutional money is too defensive. We believe that the market will find willing buyers as the current pullback runs its course.

In 2009, after the initial 40% rally, the market peaked in early June and corrected about 10% in a month before powering higher for the rest of the year. We could be seeing something similar here, where stocks take a pause after a near relentless 2 month run-up.

Managed Accounts

A few major averages have turned positive for the year, such as the tech heavy NASDAQ. The DJIA, S&P and small-caps remain down but well off their lows. Our managed accounts are largely up for the year or nearly so, after being down half what the market was at its worst. We believe the worst is over, but volatility squalls (like now) will pop up from time to time. We believe this pullback will be an opportunity to add to positions, which we'll do if the timing is right over the coming days. A June swoon could lead to renewed upward moves later in the summer.

S&P 500 Chart (below)

The S&P 500 has climbed all the way back above its key 200-day average (red line in chart), now around 2980. We expected to see a pullback to those levels or slightly below– which we have gotten. However, unless the selling accelerates below the 200-day, or prices hold below that level for several days, this will prove to be a pause not an end to the trend.

Disclosures:
This report has been produced and compiled by Hamilton-Bates on a best efforts basis, and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Hamilton-Bates and readers are expected to make their own investment decisions after consulting with their personal financial advisor and without reliance on this report.