Sandpiper Capital

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Gleanings

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Disconnected

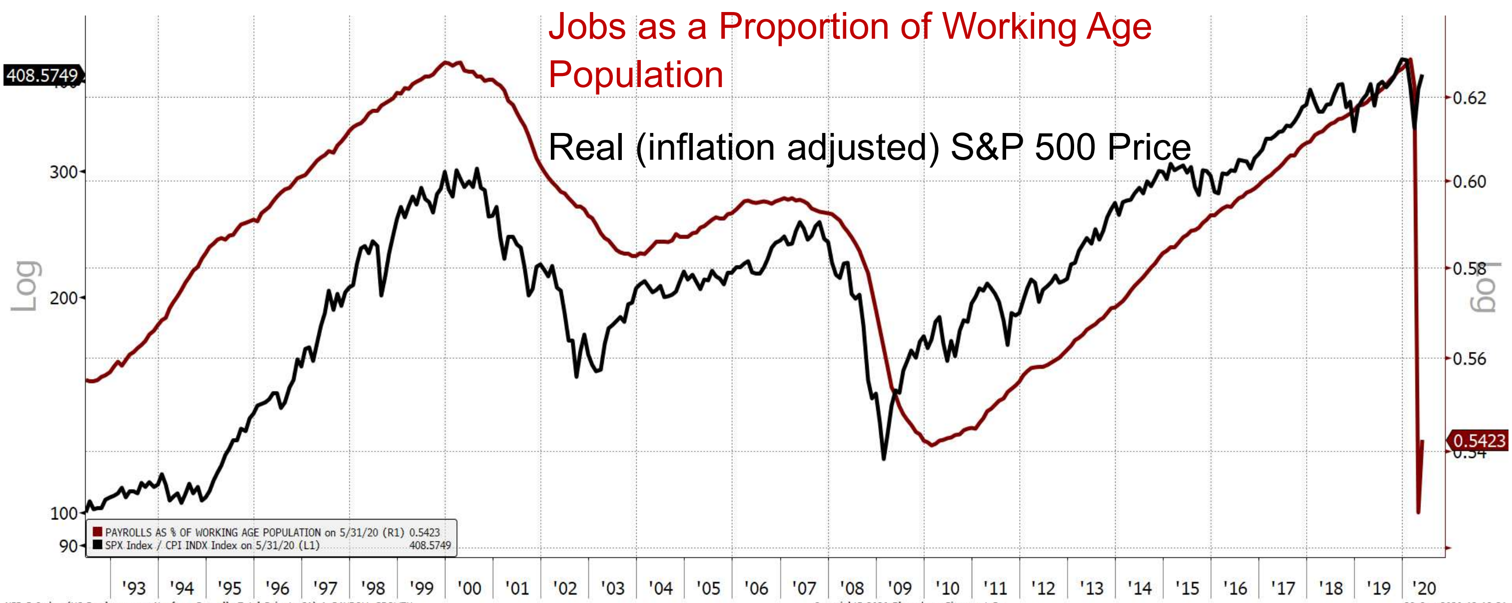
More companies have seen their credit ratings downgraded this year than in the same period in 2009. Expectations are for a record number of bankruptcies and forced liquidations resulting in job losses that will be double the last recession, (17mm vs 8.7mm).

Market Returns Annually

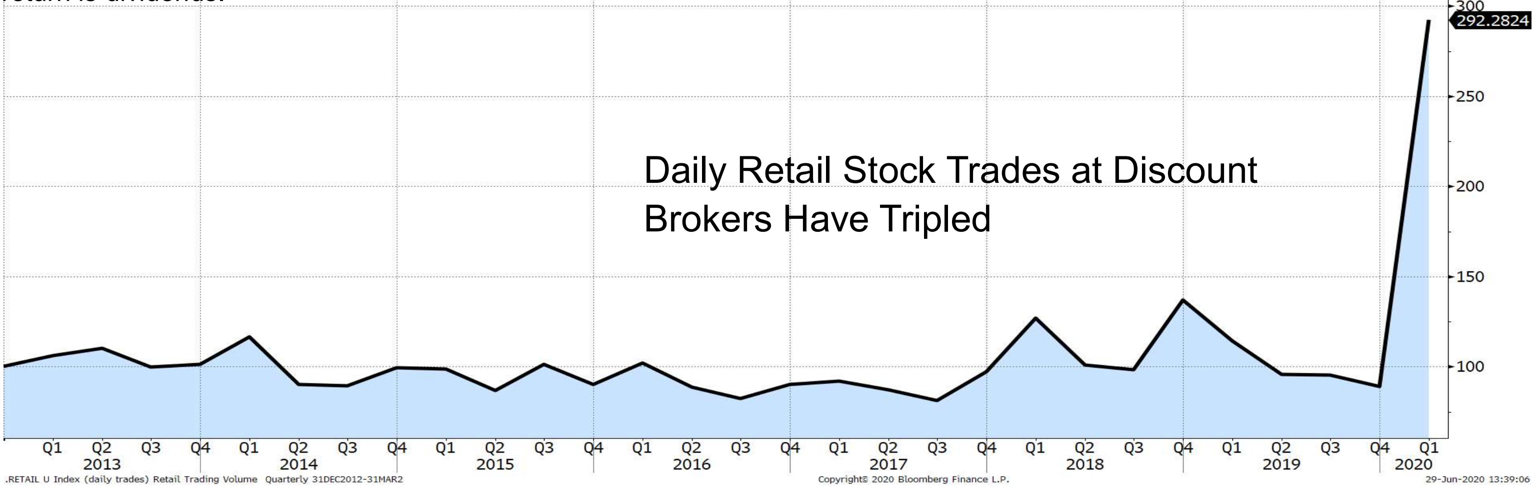
Index	**2017**	**2018**	**2019**	**YTD**
S&P 500	21.8	-4.4	31.5	-3.1%
ML 1-5 yr Gov't/Corp	.4	1.2	5.1	3.8%
EAFE (Dev Fgn Mkts)	25.1	-13.8	22.0	-11.3%
Emerging Markets	37.9	-14.5	1.0	-9.7%

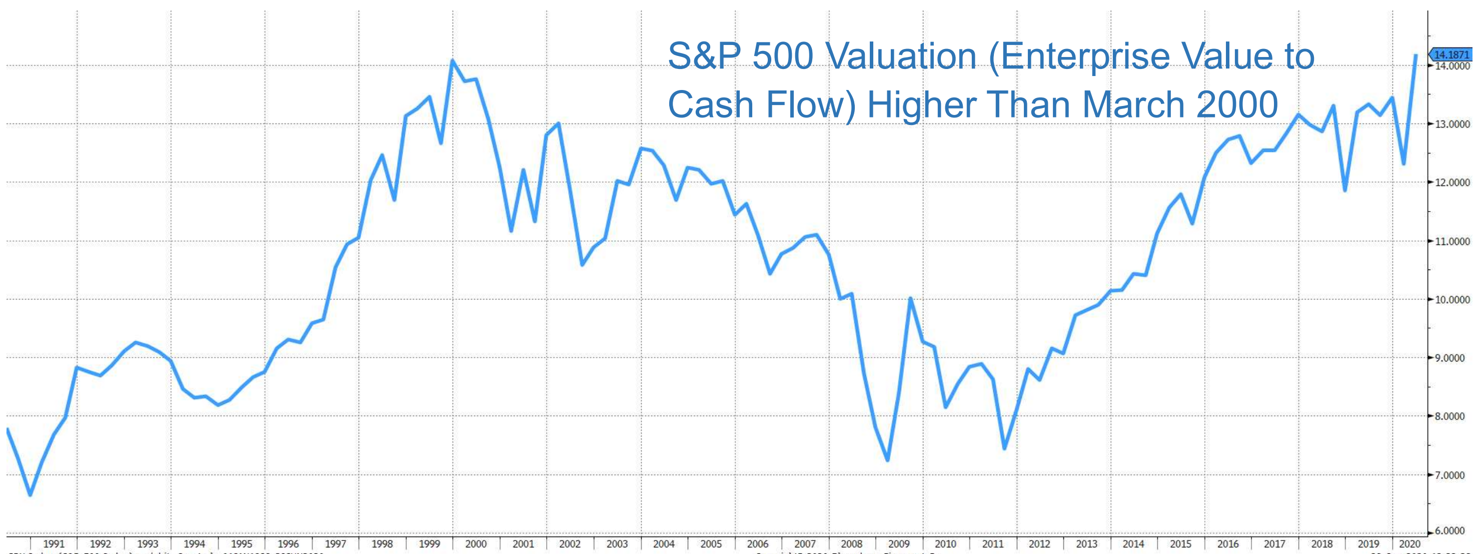
We are in a synchronized global recession with global growth expected at -4.9%, similar to 2009's drop of -5.1%. Wage income has dropped by $260 billion since March with retail sales down by $164 billion (about -10%). S&P reported earnings for the March quarter (down 64%) were the lowest since 2009 with profit margins cut in half. Due to lost incomes, more than 40 million more people (54mm total) will experience difficulty getting enough food while 500,000 renters in Virginia face eviction in July. Health care system losses from treating Covid are estimated at over $500 billion this year with over 160,000 more fatalities so far this year than last and yet instead of the 43% drop the S&P saw in 2009, we are down only 9% from the highs.

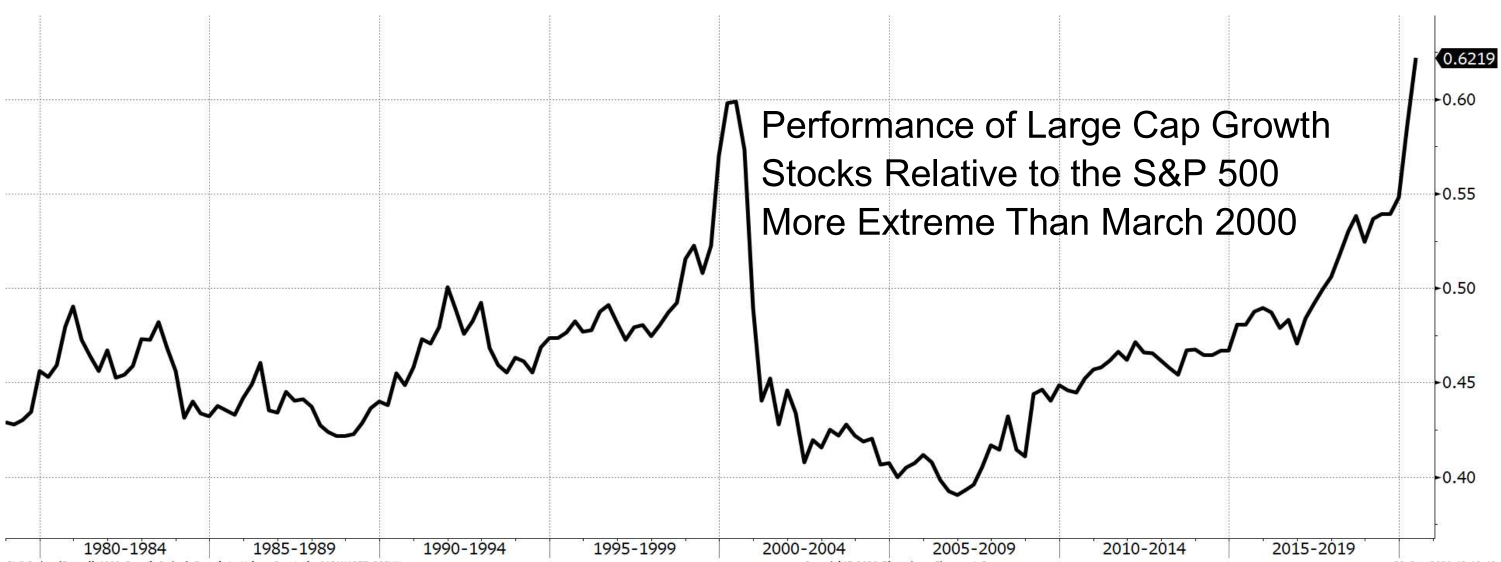
It certainly has been the case that the stock market moves in advance of the fundamentals and I suppose that if it had been possible to forecast the pandemic that far in advance, we *would* have seen a 50% drop. The difference this time is that the likelihood of a global depression is so significant that governments and central banks around the world have been taking historically unprecedented steps to avoid disaster by supporting the financial markets. The equation seems to be that if markets and wealth can be maintained at current levels, then that will help offset the drop in incomes and sales. The problem is that there are hundreds of companies that can't pay the interest on the debt they have now that are selling more debt (and equity) to all these willing buyers who believe the markets no longer have risk. It remains to be seen what the unintended consequences will be and whether governments will appropriately respond to the challenge.



Very low rates, $3 trillion in stimulus (equivalent to $30,000 per household), the Federal Reserve buying mutual funds to support the market when it falls and a lot of new day traders with time on their hands, have created a bubble in financial assets more extreme by some measures than the tech bubble of 2000. The challenge is that the economic prospects going forward are much more bleak. This can go on for a while but even if it does, while the government may not want the market to fall they will make no effort to make sure it goes up. Risk to all stock investors is over 50%, best case return is dividends.







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