CORBETT ROAD

MACRO MUSINGS

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Rush Zarrabian, CFA
Portfolio Manager
Corbett Road

AN UNFATHOMABLE DECLINE

SUMMARY

- **The stock market saw its fastest decline from an all-time high to a 20% decline**
- **The impact on the economy has been immediate, with a collapse in travel and leisure related activity, and a spike in initial claims for unemployment that is only expected to get worse.**
- **Data and information are changing by the minute, but we expect the market to remain volatile for the foreseeable future and will look to MACROCAST™ to give us the signal that the worst might be behind us.**

A COMPLETE CHANGE IN THE OUTLOOK IN LESS THAN A MONTH

The world has not seen a pandemic of this magnitude in over 100 years. The outbreak of COVID-19 went from a relatively contained regional epidemic to a global crisis in a matter of weeks.

It is difficult to use economic data to tell us exactly where we are headed, as many important economic indicators like GDP are published with a lag.

Initial Claims for Unemployment are one of our most reliable leading indicators because they provide up-to-date information about the state of the economy on a weekly basis. Even though this week's report reflects claims for the previous week, they still spiked from 211,000 to 281,000, a big jump. **Next week's report is projected to be massive, with potentially 750,000-2,000,000 claims nationwide.** To give you some context, they've never been higher than 700,000 in any single week in history.

While some parts of the economy will hold up better than others, several industries are projected to see devasting declines in revenue (from Goldman Sachs):

Exhibit 1: Estimated Revenue Losses by Industry, Based on News Anecdotes

Estimated Declines in Revenue	
Casino Gambling	-95%
Sports & Entertainment	-80%
Hotels	-75%
Public Transportation	-70%
Restaurants	-65%
Goods ex. Food	-30%

Source: Goldman Sachs Global Investment Research

Companies are now suspending earnings guidance because they have no clue how to assess future sales. For example, Apple still *thinks* that its latest iPhone will be released on time in September, but how sure can they be? It is challenging to project phone sales with any level of confidence when unemployment is expected to rise, putting pressure on consumer demand. Everything depends on how adeptly the pandemic is handled, how quickly the spread of the virus is contained, and how people will behave in the months ahead. Each of which is an unknown.

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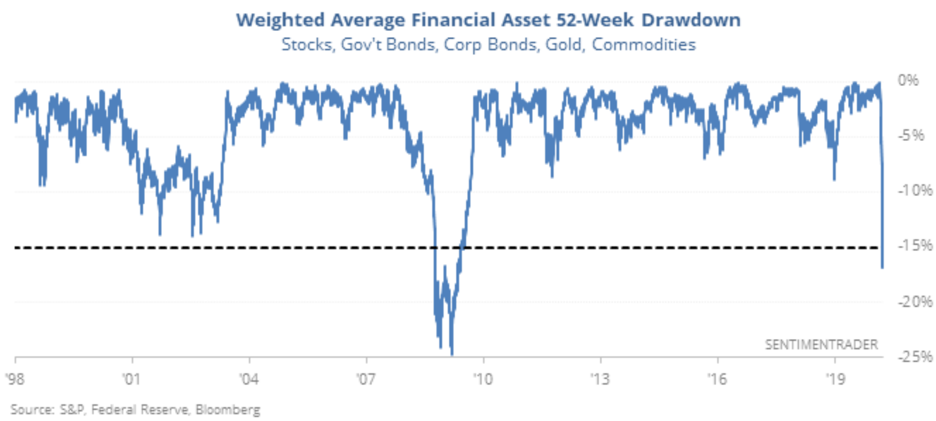
EVERYTHING IS BEING IMPACTED, NOT JUST STOCKS

While equity markets around the world have suffered, this chart from Sentiment Trader shows other asset classes have also undergone big declines.



This type of mass selling has not occurred since the global financial crisis of 2008. We think part of what might be happening is outright selling by funds that are overleveraged and being forced to liquidate to meet margin calls and client redemptions.

WHEN THE BEAR MARKET FINALLY ENDS, EXPECT A STRONG REBOUND

This table from Ben Carlson shows the worst drawdowns in US history. Regardless of the depth of the market's drawdown this time around, there is a good chance the market will be higher 1, 3, and 5 years later.

			Forward Returns		
Drawdown	Peak	Trough	1 Year	3 Years	5 Years
-86.2%	9/7/1929	6/1/1932	162.9%	170.5%	344.8%
-56.8%	10/9/2007	3/9/2009	53.6%	97.9%	181.6%
-54.5%	3/6/1937	3/31/1938	35.2%	38.2%	84.5%
-49.1%	3/24/2000	10/9/2002	24.4%	59.0%	105.1%
-48.2%	1/11/1973	10/3/1974	38.1%	72.7%	117.5%
-40.6%	9/7/1932	2/27/1933	98.7%	194.5%	154.6%
-36.1%	11/29/1968	5/26/1970	34.7%	50.6%	42.2%
-34.5%	11/9/1940	4/28/1942	61.2%	128.6%	144.9%
-33.5%	8/25/1987	12/4/1987	23.2%	55.5%	121.7%
-31.9%	10/25/1939	6/10/1940	8.0%	59.7%	118.8%
-31.8%	2/6/1934	3/14/1935	83.8%	16.3%	84.9%
-29.8%	7/18/1933	10/21/1933	2.9%	120.1%	87.3%
-29.2%	2/19/2020	???	???	???	???
		Averages	52.2%	88.6%	132.3%

Some of these numbers are staggering, and the table obviously doesn't tell us when the bear market will stop or how deep the final drawdown will be. **It simply shows that when a bear market is truly over, the market historically hasn't looked back.**

SO WHAT HAPPENS NEXT?

We believe it will take the market time to hit bottom, and we are not expecting a "V" shaped recovery like we saw at the end of 2018. That said, we must be at least open to the possibility of a sharp, strong rally in the event of any good news. What do we consider "good" news? An effective treatment of the disease that would minimize the need for hospitalization might be all the market needs to recover. A vaccine would be ideal, but reports indicate that the earliest a vaccine could be mass produced would be 12-18 months from now.

While stimulus from the Federal Government is expected and would undoubtedly help suffering industries and workers, we don't think it will be enough to signal a bottom. The economic impact beyond the first several weeks and months is unclear, and it could be months or years before some industries return to pre-pandemic levels.

However, the market could bottom while the news gets worse. The market is a discounting mechanism that looks ahead of the data by roughly 6-9 months. By the time terrible employment and GDP numbers are released, the market will likely be looking ahead to the potential rebound.

CORBETT ROAD IS GRATEFUL FOR YOUR TRUST DURING THIS DIFFICULT PERIOD

We, at Corbett Road, want to assure you that we are doing all that we can to serve you during this challenging time. We will continue to monitor the situation as it evolves, analyze the data and its economic implications, and offer guidance and advice in our clients' best interest.

We thank you for your enduring trust in us.