CB3 Financial Group

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CB3 on 3

April 2020

SUMMARY: The month of March will likely be recorded in history as one of the most dramatic months of market performance, with stocks collapsing into a bear market in roughly a month. March will be remembered as the month that ended the eleven-year bull market in the S&P 500 and NASDAQ. *INCREDIBLY, the Dow entered a bear market on March 23rd and then reversed into a Bull Market (!!) just three days later on March 26th. That is a staggering, likely once-in-a-lifetime occurrence.* So, the major indices are split Bull/Bear (!) And the COVID-19 Crisis continues. What's next? Let's take a look...

Coronavirus

You already know the reality in which we now live: Nations cohere and flourish on the belief that their institutions can foresee calamity, arrest its impact and restore stability. When the Covid-19 pandemic is over, many countries' institutions will be perceived as having failed. Whether this judgment is objectively fair is irrelevant. The reality is the world will never be the same after the coronavirus. To argue now about the past only makes it harder to do what has to be done. The coronavirus has struck with unprecedented scale and ferocity. Its spread is exponential: as of this writing, U.S. cases are doubling every fifth day. And, as of this writing, there is no cure. Medical supplies are insufficient to cope with the widening waves of cases. Intensive-care units are on the verge, and beyond, of being overwhelmed. Testing is inadequate to the task of identifying the extent of infection, much less reversing its spread. Alarmingly, a successful vaccine could be 12 to 18 months away.

Here's my take:

Our government is obliged to undertake a major effort in three areas. **First, and foremost**, increase America's resilience to infectious disease. Triumphs of medical science like the polio vaccine and the eradication of smallpox have been hallmarks of American medical ingenuity. We need to develop new techniques and technologies for infection control and commensurate vaccines for Americans. **Second**, strive to heal the wounds to the world economy. Global leaders have learned important lessons from the 2008 financial crisis. The current economic crisis is more complex: The contraction unleashed by the coronavirus is, in its speed and global scale, unlike anything ever known in history. And necessary public-health measures such as social-distancing and closing schools and businesses are contributing to the economic pain. Programs should also seek to ameliorate the effects of impending chaos on the world's most vulnerable populations. **Third**, safeguard the principles of American Liberties, the Constitution, and the lifestyle of freedom to which we have all known in our lifetimes — as our leaders fight an unseen enemy...

Political

I don't need to remind you there is a General Election in seven months. Only the state of Wisconsin is pledging to keep its primary election, with thousands of voters potentially risking COVID-19 infection as the possible apex of the disease hits American in the next 10-15 days.

Here's my take:

Market participants are not paying much attention to the political component of markets. The only political angst in play right now is from disgruntled state governors complaining about how the Federal government is handling the pandemic. It is my opinion, that our Administration, Federal Reserve, and Treasury — with three stimulus programs employed and a fourth in the works — has kept the level of panic to a much smaller level than it could have been given the pandemic's fatal trajectory.

Fundamental

All eyes were on the Labor Department last Friday. The data was harrowing by any measurement ever used for government statistical reporting. 6.6 million Americans filed for unemployment last week. The number set a new record for claims in a week, double the previous record of 3.3 million claims filed two weeks ago. In the past two weeks, about 6% of the entire U.S. labor force has filed for jobless benefits. See the chart on the right to show the depth of unemployment caused.

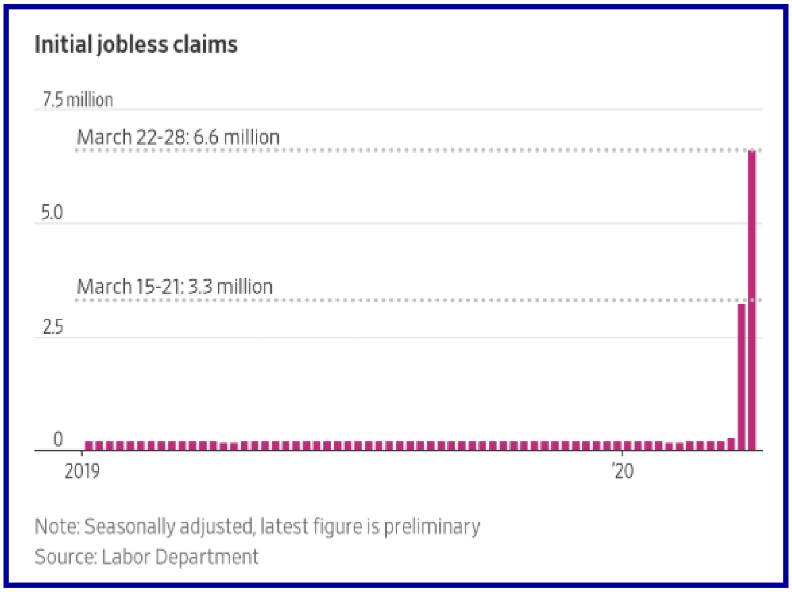
Friday's Non-Farm Payrolls report showed that employers lost 701,000 workers in March, a number that vastly understates the impact the coronavirus has had on businesses and households because payrolls were measured before lockdowns began in earnest. The second chart on the right shows the likely trajectory for future weekly unemployment filings in May and June.

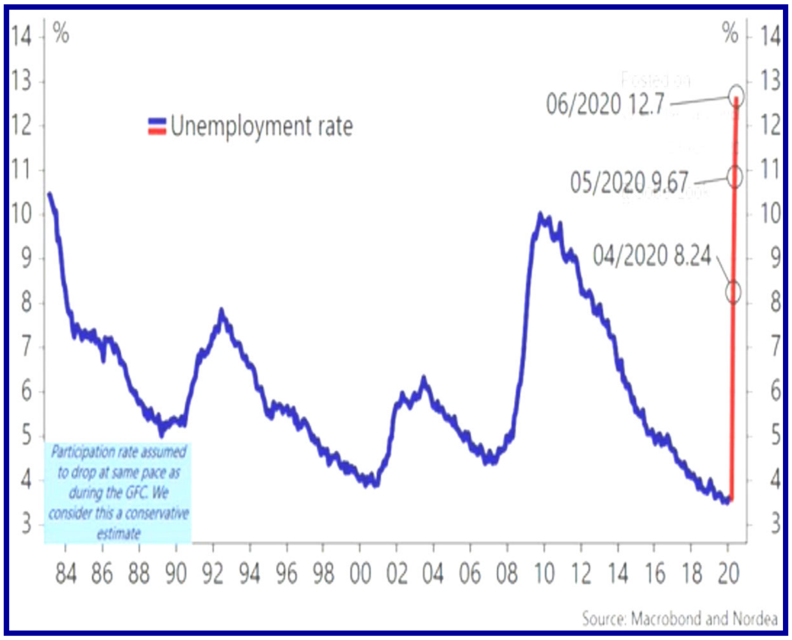
The Labor Department said Friday that the job losses were concentrated in leisure and hospitality, where payrolls fell by 459,000. But weakness was broader, with notable declines also in the health-care and social assistance, professional and business services, retail trade and construction industries. Today's economic data included the Employment Situation report and ISM Non-Manufacturing Index for March.

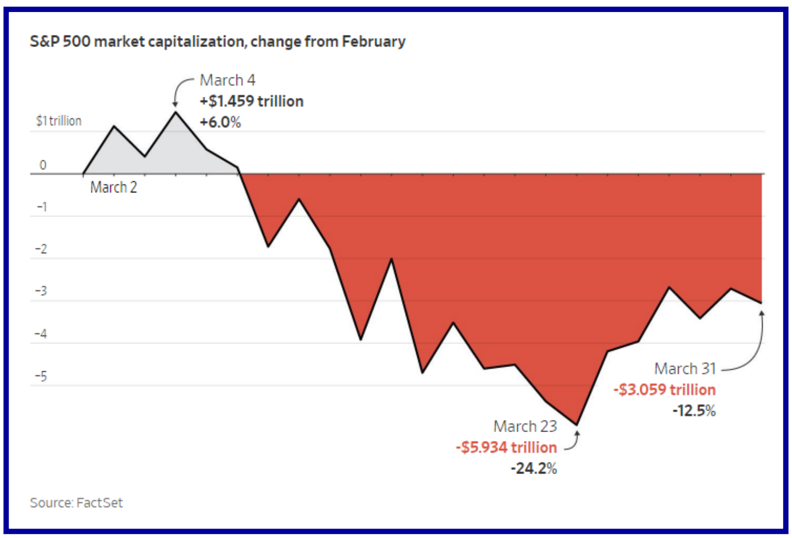
The key takeaway from the report is that it's not as encouraging as it appears to be, having been bolstered by a nice pickup in the Supplier Deliveries Index (to 62.1% from 52.4%), which reflects slower deliveries due to the COVID-19 impact. Moreover, it is understood that the services sector has been the hardest hit in the sudden economic stop and that this measure does not adequately capture the real-time change in business conditions.

Just what has been the cost to the market capitalization of the S&P 500? In other words, what was the market capitalization change from the first day of March versus the last day of March? You can see from this third chart on the right that, at its peak, the S&P 500, on March 4th, had risen by approximately 15 trillion in market value. At its low on March 23rd, the net worth of these same companies had plummeted by almost $6 trillion — or 24%. The S&P 500 recovered half of these losses by the end of March. Still, the market capitalization losses have been staggering. And may continue for a while.

What is now in play is this: how quickly can U.S. companies return to "business as usual" in an attempt to restore "life as normal" in time for the November 3rd election. This question will be answered over the duration of 2020, itself becoming among the most dramatic years in United States history.







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Technical

As of Friday, April 3rd, here is the Market's Performance:

- Nasdaq Composite -17.8% YTD
- S&P 500 -23.0% YTD
- Dow Jones Industrial Average -26.2% YTD
- Russell 2000 -37.0% YTD

If you look at the chart on the right, you will see a red arrow pointing up. The date on this arrow is December 24, 2018, which is the most recent "completed' cycle low. You will also see a red circle on the far right of the chart. This is the current trading level of the market, indicating that the previous cycle low was, indeed, broken, on an intra-month basis. The SPX did hold the low set Dec. 24th, 2018 on a *closing-month* basis. That is statistically very important. If that low is still holding *when I issue our MAY newsletter*, that should be a major encouragement to us all. We will see. All that said, I am still expecting a (likely modest) *positive market performance for 2020* heading into Election Day. We're here for you … just call or write with any questions.

And be sure to watch our weekly market updates Thursdays at 7pm on Facebook Live.

EarningsBeats.com StockCharts

About the CB3 Separately Managed Accounts (SMAs):

Capital Growth (CG)

CG uses advanced technical analysis to identify stocks with attractive momentum characteristics, targeting an investment objective of capital appreciation. These stocks must also have a growth "story." The portfolio is comprised of 20-40 equities and ETFs across all market capitalizations. Up to 50% of assets may be invested in cash. International and alternative asset positions may be used. **Benchmark: iShares Russell 1000 Growth (IWF)*

Organic Value (OV)

OV invests in stocks of established companies that are attractive on a technical basis and may be fundamentally undervalued. These stocks are returning capital to their shareholders through dividends and stock buybacks. The objective is capital appreciation. The portfolio is comprised of 20-40 individual positions. Up to 50% of the assets may be invested in cash. **Benchmark: iShares Russell 1000 Value (IWD)*

Dynamic Income (DI)

DI utilizes dividend-paying equity securities to generate income per its investment objective. The portfolio is comprised of 20-40 holdings, primarily in U.S. companies, with equity holdings concentrated among large-cap stocks. Favored stocks have an increasing three-year net growth in payout. The portfolio may contain up to a 10% weighting in international and 60% in cash. **Benchmark: iShares Select Dividend (DVY)*

Conservative Yield (CY)

CY invests in fixed income ETFs and CEFs, aiming to produce a total return exceeding its benchmark, but also protecting its capital base. The portfolio can invest in anything from U.S. Treasury, short and long term corporate, international, emerging market, domestic and international high yield, and leveraged bonds. Holdings range across durations and bond sectors. Up to 60% cash can be held. **Benchmark: Vanguard Total Bond Market (BND)*

Small Cap (SC)

SC invests in small and micro-cap securities with the goal of capital appreciation. Dividends are merely incidental in this program. The portfolio is comprised of 20-40 holdings, almost exclusively U.S. companies. Capitalization of equity holdings is limited to small- and micro-cap stocks. Favored stocks have technically favorable attributes within sectors that are also technically strong. SC stocks may contain up to a 10% weighting and up to 60% in cash. **Benchmark: Russell 2000 (IWM)*

Disclosure

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