July 13, 2020

OBSERVATIONS

- Covid-19:
  - Goldman Sachs analysts estimate that a national mask policy could prevent approximately $1tn (5% of GDP) of further economic damage.
  - Florida, Texas, & California are among the worst affected in 7-day average case counts – collectively they represent 28.5% of the U.S. economy.[1]
- As coronavirus cases surge across the United States, Apple Maps data shows a slowdown in requests for driving directions, a potential warning sign as the country works to restart its economy amid the pandemic.[2]
- The pandemic has exacerbated an already precarious retirement savings dynamic: Recent data suggests 59% of working-age Americans do not have savings in retirement accounts. Those with retirement accounts have balances that are less than their annual income.[3]
- The 18-29 age demographic has been the hardest hit (e.g. job losses and school housing closures) during the pandemic - nearly 1 in 10 young adults moved due to the COVID-19 outbreak.[4]
- Cleveland Fed President Mester told CNBC that the difficulty in taming the virus is reflected in how long it's going to take the economy to recover, "I think it's going to be a long road back to where we were in February." Mester also noted that activity in her region had leveled off in the recent week(s).
- High Yield bonanza in Q2[5]:
  - The high yield bond and loan markets recorded their best quarterly returns since 2009.
  - High yield bond new issue volume set a single-month record, as $61.5 billion was issued in June.
  - Second quarter gross issuance also set a new record of $145.5 billion.
- Chinese equities posted significant gains last week of +7.5%[6] - following bullish guidance from state media.[7]

EXPECTATIONS

- Brooks Brothers, founded in 1818, has filed for chapter 11 bankruptcy. Undoubtedly, the recent rise of bankruptcy filings, particularly in the retail sector, has made for difficult headlines. However, these areas of distress create potential opportunities for private equity and private credit managers.
- Institute of Supply Management survey showed: (1) services related activity in June increased by the 2nd highest rate since 1997 and (2) services related employment remains weak – signaling job cuts.

ONE MORE THOUGHT[8]

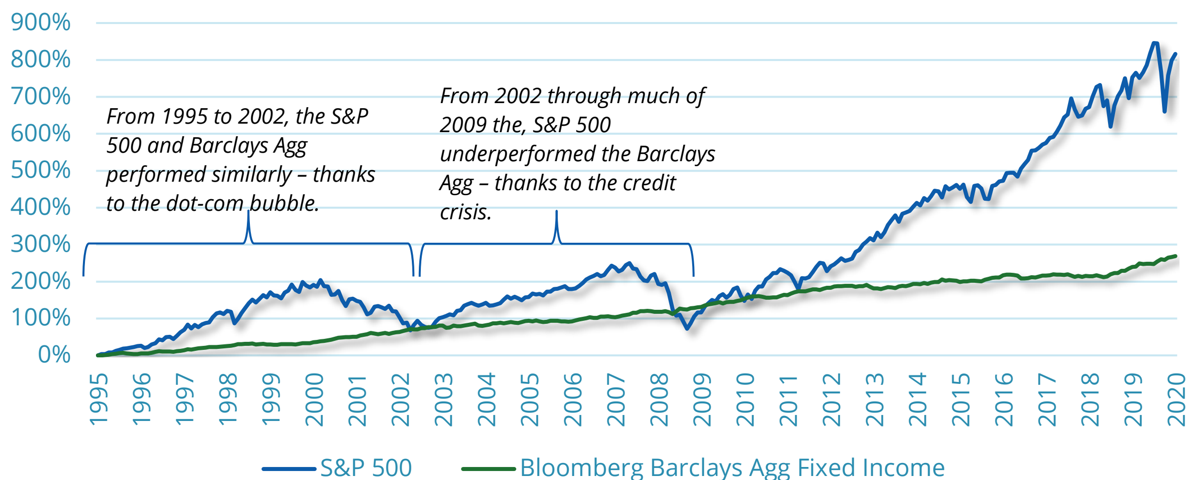
Equities (such as the S&P 500) are long-term assets and equity markets tend to deliver positive returns over time, particularly when we extend holding periods beyond 10 years. Since 1927: rolling 1-yr returns have been negative 26% of the time, rolling 3-yr returns have been negative 17% of the time, rolling 5-yr returns have been negative 12% of the time, while rolling 10-yr returns have been negative only 7% of the time. Rolling 25-yr returns? No negative periods. The longer you hold equities the greater the likelihood of realizing the investing merits of the asset class. While less than 7% of 10-yr returns for the S&P 500 have been negative since 1927, there has been only

[1] *Statista, Johns Hopkins University*
[2] *CNBC, Apple*
[3] *WSJ, National Institute on Retirement Security*
[4] *Pew Research Center*
[5] *Shenkman Capital Management, as of 7-July*
[6] *Bloomberg MSCI China Index and CSI 300 Index (A-share market)*
[7] *Bloomberg; Kraneshares – China Last Night "China Rallies On Massive Volumes, Sina Receives Privatization Offer"*
[8] *Clearstead, Bloomberg LP, all data monthly as of 30-June, returns are nominal*

one period in the post-war era that has produced negative returns over 10-years – that is the period of 1999-2009. The period was marred by a starting point that included the excesses of the dot-com bubble and ended with the credit crisis – the combination of which produced abysmal returns for investors. The result was a -3.43% annualized return for the S&P 500 for the 10-year period of Feb-1999 to Feb-2009. Relating to today, many are surprised by the fact that the S&P 500 has produced positive returns (as of 30-June) on a trailing 1-yr, 3-yr, 5-yr, 10-yr, and 25-yr basis – *in spite of the pandemic*. While the next 10 years are seemingly challenged by the economic uncertainty brought on by the pandemic, equity investing continues to be important towards achieving investing objectives. However, combined with zero interest rate policies around the globe, solving for investment objectives will likely require a combination of tactics which includes revisiting spending plans and evaluating other asset classes as a part of the investment portfolio.

CHART OF THE WEEK

A 25 Year Journey in Equity Markets
Cumulative Performance of S&P 500 (1995-2020)



Source: Bloomberg LP, Clearstead, monthly data as of 30-June

Since 1995, equity investors have experienced 2 distinct periods of difficulties (1995-2002 & 2002-2009), particularly when contrasted against fixed income. This 25-yr period produced annualized returns of +9.27% for the S&P 500. Achieving the +9.27% required patience and discipline as the majority (80%) of gains were earned in the final 10 years. We expect the next 25 years to require the same patience and discipline.

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