WILDE CAPITAL MANAGEMENT

PORTFOLIO UPDATE – MARCH 26-27, 2020

As we have been saying for a number of weeks now, two critical ingredients would be necessary to begin to put a solid floor under the market correction we have experienced. The first would be massive coordinated action on the part of the Federal government, and the other a cresting of COVID-19 cases. As rhetoric became plans which became action, we saw the market put on a rally the likes of which has not been seen since the 1930's. In the midst of this rally, we took firm steps to re-establish equity risk in our portfolios. Across all diversified portfolios we took reserve cash positions and re-committed them to equity investments so that we finish the week with roughly the same equity ownership as our representative benchmarks. However, while the US has trailed behind other crisis hot spots around the globe in terms of the growth of infection (China, Iran, Italy and Spain rose to their infection peaks several weeks earlier), the US is now far out front in terms of stimulus action to keep the economic fires lit. For this reason, the move to equity was entirely directed into the United States, and in certain portfolios we took additional proceeds from non-US investments and converted them to US exposure.

There are still deeply troubling times ahead for society and for markets. The US has not even hit peak infection levels in the early areas of concern including metro New York and the Pacific Northwest, and a crisis is gathering on the Gulf Coast. Much of the country's interior has not seen meaningful spread yet, and with any luck the measures taken to "socially distance" will have the desired effect of keeping it that way. The unemployment figures reported this week exceeded nearly everyone's worst expectations. We expect to see more damage to employment, only somewhat tempered by significant hiring in parts of the economy that are in overdrive trying to keep up (shipping and on-line retail fulfillment, and grocery and staples supply chain to name a few). Major countries and economies are only now at this late date coming to grips with the threat and the risk of the disease including the UK and Japan. The International Olympic Committee and the Japanese host committee at last decided after intensive urging from national committees, athletes, and international health organizations to delay the 2020 Games, finally understanding the danger of convening athletes and spectators from across the globe for days of crowds and intimate contact. The US has not yet fully mobilized its native manufacturing capacity to produce sufficient PPE (personal protection equipment) for our front-line medical personnel and other medical devices including ventilators to address the insufficiencies already felt in the system before we have gotten to the worst. In short, this is not over.

But…

In prior crises it rarely felt like the turning point as it was happening. We look for the hallmarks like Secretary Geithner announcing the path to deploy the TARP in March of 2009 to bring an end to the market dive from the Financial Crisis. This week we believe that moment was Secretary Mnuchin brokering the $2 Trillion relief program for the US economy. We did not step directly into equities on day one of the rally, but as confidence gathered and the rally picked up speed, we made the renewed commitment to US equities for our clients. We fully expect a great deal of volatility yet to come, but the general trend to be upward. We will finish here with a quick history lesson borrowed from our Chart of the Week.

Many economists are forecasting severe contractions in US GDP through the next quarter due to the impact of the COVID-19 virus. We believe that the US economy started decelerating at the beginning of March if not earlier, and it is extremely difficult to estimate the extent of the slowdown. In the following grid we enumerated the National Bureau of Economic Research list of recessions beginning with the Great Depression. The average contraction in GDP since the Great Depression was 5.9% and lasted 13 months. Post WW II in the industrial

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rebound-fueled era the average contraction was 2.3%, lasting 11 months. Economists' current forecasts range from declines in GDP growth in the mid-single digits to close to 10% from current quarter to Q2 2020. America has not felt that level of contraction in economic activity for over 70 years.

What's different? The American economy is vastly more modern and resilient than in the past, and the US Federal Reserve and federal government have pledged more than $2 Trillion in monetary and fiscal expenditures to buttress the economy. That extraordinary amount is nearly 8%, possibly more, of nominal GDP. We could experience a sharp rebound as this injection of liquidity stimulates spending, a temporary wealth effect, and pent-up demand stemming from service-sector employees returning to the labor force when this crisis subsides. This week the market has shown us an anticipatory preview of what that could look like.

Recession	GDP Contraction	Duration (months)
Great Depression	-26.70%	43
1937-38 Recession	-18.20%	13
1945 Recession	-12.70%	8
1949 Recession	-1.70%	11
1953 Recession	-2.60%	10
1958 Recession	-3.70%	8
1960-61 Recession	-1.60%	10
1969-70 Recession	-0.60%	11
1973-75 Recession	-3.20%	16
1980 Recession	-2.20%	6
1981-82 Recession	-2.70%	16
1990-91 Recession	-1.40%	8
2001 Recession	-0.30%	8
2007-2009 Great Recession	-5.10%	18
Since Great Depression	*-5.91%*	*13.3*
Post WWII	*-2.28%*	*11.1*

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Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

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