



Stonebridge Economic and Market Update

4/13/2020

What We Saw

Last week the equity (stock) market posted one of their best weeks of all time due to what appeared to be a plateau in new coronavirus cases. This was a possible peak in the pandemic as investors were seeking any kind of good news. It may take another week or two before we have confidence in this peak. On Thursday the Federal Reserve announced it would assist small to mid-sized businesses with a new \$2.3 trillion funding program. The Federal Reserve also announced it would buy corporate bonds that could support less than investment grade. This additional news was enough to prop up stocks.

What We Are Going to See

This week investors will focus on the start of earnings season—we have always said “earnings matter.” The market has discounted much of the expected downcast reports; however, there will be surprises particularly for management teams who will try to forecast earnings for next quarter or full year. Many companies will not forecast earnings, especially when we do not know when the coronavirus shutdown will be behind us. The market does not like uncertainty, and it will not have comfortable knowledge of future earnings. For this reason, we remain quite cautious on the equity markets.

The bear markets we have experienced in the past have taught us there will certainly be more volatility ahead and the stock markets will likely test the lows again. The market mavens are undecided: some project a V-shaped recovery, others a U-shaped recovery, and others a longer L-shaped recovery. This recession/bear market is unique to the others given that the current recession is a forced shut down of our economy due to a pandemic, unlike anything that we have experienced before.

Stonebridge Investment Strategy

We offer our strategy recommendations for getting through this stage of this market cycle:

- We do not believe last week’s market action is an all clear signal; in fact, we used last week’s movement up as an opportunity to trim positions in companies that were at the higher end of their historical market valuations. This was not a broad market sale, instead it was a trimming of positions that had risen to higher valuations and company holdings that had become outsized allocations in client portfolios.
- We are identifying fundamentally solid companies to acquire at appropriate prices. We will purchase when the stocks of those companies hit appropriate long-term pricing valuations. Those companies will be acquired in steps appropriate for each client’s investment objectives.
- We appreciate what the Fed has done to support the fixed income (bond) market. However, we are evaluating the credit quality of bond issuers and still favor investment grade bonds at maturities of 1 to 5 years. We are reducing individual bonds or bond funds that are at risk of declining in credit quality.
- Having historically high allocations of cash and cash equivalents is appropriate at this time. This will provide the resources needed to acquire securities when valuations are appropriate.
- As we have stated in prior updates, this is not the time to broadly sell out of the equity or fixed income markets. Selective buying and selling should be researched and planned to execute when the volatile



markets provide us with appropriate long-term pricing avails itself. Patience is a virtue and the timing of trade execution is critical.

We have faith that our country will recover from this pandemic and the economic fallout. We believe in the historic actions taken by both the private and public sectors to fight this virus and get our economy back on its feet. Each day we assess all action taken in an effort to protect and grow our clients' portfolios through this process. If you have questions or would like to further discuss our investment strategy during this phase of the market cycle, please call 651-251-1000.

Bob Kincade, President & Portfolio Manager
651-251-1007
rkincade@stonebridgecap.com

Disclaimer: The views expressed here reflect those of the writer as of the date noted; however, completeness cannot be guaranteed. They may change as economic fundamentals and market conditions change. This commentary is provided as a general source of information only and is not intended to provide investment advice for individual investor circumstances. Past performance does not guarantee future results. Please seek the advice of professionals regarding the evaluation of any specific information, opinion, advice or other content.