Lynx Capital Group Ltd

Disciplined Strategic Investment Management

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Market Outlook as of April 2020

"In the fields of observation chance favors only the prepared mind"

"Science knows no country, because knowledge belongs to humanity, and is the torch which illuminates the world."

"I am on the edge of mysteries and the veil is getting thinner and thinner,"

Louis Pasteur (1822 – 1895) - French microbiologist, chemist, pioneer of "Germ theory of disease", discoverer of molecular asymmetry and stereo-chemistry and inventor of the process of pasteurization.

We hope that you, your family, loved ones and your colleagues are staying healthy and managing through this difficult time.

In times like these, it's important to have faith that mankind at its finest is a problem solving machine and that this too shall pass. What the country and markets need most at this point is time — time for social distancing to "flatten the curve" allowing hospitals not to be overwhelmed and keep capacity available and time for fiscal policies to have their positive impact on the real economy and financial markets.

Stock markets, after reaching all-time highs in February, fell at record speed due to massive business shutdowns caused by the Coronavirus. At no time before in history have major economies shutdown this fast so that hospitals systems can better cope and loss of life can be kept to a minimum. Concurrently, it is unprecedented for such a targeted massive economic response by the Federal Reserve and passed by Congress to occur in such a short period of time.

Congruently to the Coronavirus crises, oil markets swooned after Saudi Arabia and Russia got into a price war and fought for market share, resulting in a further loss of jobs in the energy industry. This resulted in cheaper gas prices for consumers. Bond markets were also dislocated due to liquidity issues, but have since been brought back to normal functioning by the Federal Reserve.

Thoughts and updates to our portfolio strategies.

The investment mandate in our **Dividend Growth Strategy** is to be close to fully invested, but simultaneously to protect assets to the best of our ability. Overall, we are taking this opportunity to upgrade our portfolio holdings with a "shopping list" of incredible companies with established defensive "moats". While valuations have been sometimes too expensive in the past, they are now in the bargain bin and we have started to add them to our portfolio. We are also favoring higher quality companies in industries where we see higher dividend sustainability such as healthcare and technology. Secondly, if a stock or industry has become impaired, we will generally sell the shares. However, if a company merely suspends their dividend for a reasonable period, we will not necessarily sell the shares, but will rely on our research process and investment judgement. In the case of the oil industry, we have reduced exposure. We have always taken pride in the fact that we are invested side by side with our clients and "eat our own cooking" so to speak. In this case, we believe that it is now appropriate to include some reasonable exposure to non-dividend paying companies. As a result, we have added one stock that does not pay a dividend, but feel it's a must have in any good portfolio and that stock is Google. The future will increasingly need artificial intelligence and data mining; Google is one of the premier companies in this endeavor. We already own companies in software like Microsoft and Accenture.

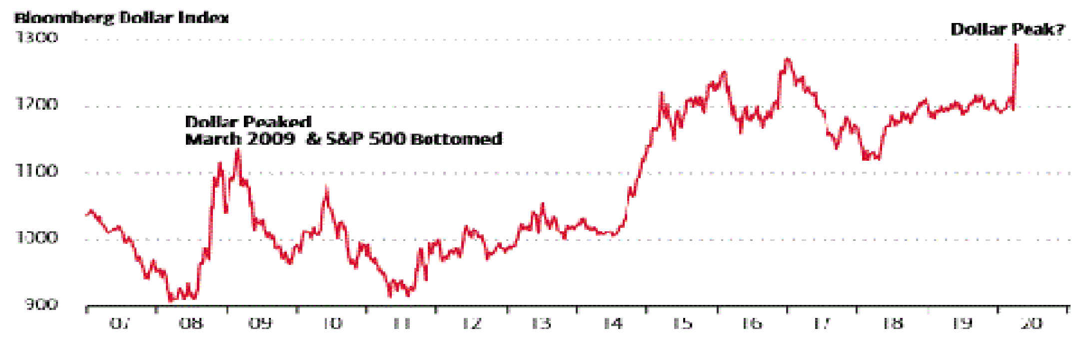
ETF tactical tilt: We have stated on numerous occasions in our recent Markets Outlooks that we thought the market was getting too extended. Little did we know what was about to unfold before us to end the bull market? We were positioned somewhat defensively with very short-term bonds, gold and even a little cash. Gold has been one of the only asset classes that has held up extremely well. Given the extreme response to fight the virus (on all fronts), we envision far less pain for certain sectors such as financials (banks were the eye of the storm in 2008, but are now part of the solution providing government backed loans to small businesses), healthcare and technology.

While there are more than enough reasons to be fearful, we believe that the following offer reasons to be more positive:

- The Federal Reserve has cut rates to nearly zero and did some massive Quantitative Easing (QE). Congress is also doing "whatever it takes!" to support the economy and fund businesses thru this pandemic through the Cares Act. The combined monetary and fiscal stimulus amounts to over $2 Trillion, 20% of U.S. GDP! This is unprecedented and designed to address a "10-12 week scenario" of economic shut down, according to Treasury Secretary Steve Mnuchin. More will come if the shutdown lasts longer. The challenge of course is distributing the funds and getting the dollars to work.
- Other global central Banks are also cutting rates and doing massive QE (quantitative easing). At least 25 other central banks are already easing, implying a much stronger response than we saw in 2008 financial crises.
- In our opinion, Warren Buffet will more than likely be stepping up to pick up some bargains from panicky sellers. This will likely set off some additional buying.
- Most of what is now expected is already priced into the market (including a recession) after a more than 35% drop from February highs and 43% in the case of smaller cap stocks.
- We are starting to see insiders buying their own companies' stock. Insiders and management only do that for one reason - they think their stock and business will improve.
- Hundreds of companies and government institutions and tens of thousands of scientists/doctors are collaborating around the world and focusing on the problem. Treatments (over 50 in testing) will start to emerge, followed by vaccines (there are over 30 in testing right now). The Gates Foundation is already starting to build 7 factories to produce vaccines, when one or more is finally tested and approved for mass immunization.
- We have seen a leveling off in countries that have taken strong measures such as China, South Korea, Taiwan and Singapore. Clearly the pace of economic recovery depends on Covid-19's path.
- The markets will bottom well before the economy. We expect there will also be a lot of pent-up demand in the economy for a substantial rally.
- While we expect earnings to be very weak for the current quarter and likely through part of the summer, stocks are extremely cheap compared to bonds and US Treasuries. This is only the third time in history where the yield on the S&P 500 is more than the yield on the 10-year Treasury. Recently it hit a plus differential (2.4% - 0.6%) of around 1.8%, around its highest ever! Dividend orientated strategies are now even more compelling as our portfolio offers another 2% above that, currently yielding close to 4%.
- One area to watch for a sign is the strength is the U.S. Dollar. One would think that with all the printing of "paper money" it would lead to inflationary pressures. The dollar's strength shows the markets confidence in the United States ability to cushion the pandemic with massive stimulus even in the face of much higher deficits. Not since the financial crises of 2008 has the outlook for inflation been so low, joining the ranks of Europe and Japan. Strangely, the 2008 crises has given the Fed and Congress a playbook to follow (rather than guessing) in dampening economic downturns and bringing back the economy. The dollar will be a key

indicator to watch for a turn in equities and other risk assets. During the 2008 Financial Crisis, the Bloomberg Dollar Index rolled over coinciding with the bottom in the S&P 500 in March 2009. Chart Below.

. King Dollar Could Signal A Turn In Risk Assets.



Source: Bloomberg/Haver Analytics. Data as of 3/26/2020. **Past performance is no guarantee of future results.**

We should always take precautions to protect ourselves and our loved ones health, and the same applies to one's financial health. One needs to consider how 1, 3, or 5 years from now what the world will look like compared to this precise moment? We would caution against taking very strong "knee-jerk" reactions with one's <u>long-term investment</u> portfolio. Though these are distressing times, long-term portfolio management shows that investors who hold through these drawdowns by staying the course (and not reacting on the days of dreadful headlines) are rewarded with above average forward returns. The impact on the markets has already been severe, and a lot is already priced in, and possible economic damage may well prove to be more resilient than what is already anticipated. By the time it feels safe again; markets will be a lot higher, leaving those who got out with regret. Time will tell.

It is always advisable to review ones individual circumstances and tolerance for risk. If any of your financial circumstances have changed, or you want to adjust your portfolios risk profile <u>we always encourage your input should you want to make any changes to your portfolio allocation.</u>

As always, please feel free to contact us with any questions or concerns.

Brian Chait
President, April 6th 2020

Each year Lynx Capital Group files a <u>Form ADV Part 2A.</u> The Form ADV Part 2A defines our business, key personnel and business relationships. If you wish to receive our Form ADV Part 2A and or a copy of our <u>Privacy Policy</u>, please contact us and we will gladly mail or email you a copy.