ClarkCapital MANAGEMENT GROUP

Commentary

Navigator® Market Update

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A Perfect Storm: Pandemic, Petroleum and Politics

Stocks got hit hard today (3/9/20) with the S&P 500 down 7.6%, the first 5% down day since August 8, 2011 (the first trading day after Standard & Poor's downgraded U.S. Treasury debt from AAA) and the worst one day sell-off since December 1, 2008 (the day the National Bureau of Economic Research declared the US was in a recession).

What happened?

First, investors continue to panic over the coronavirus as both the number of infected people and the death toll rise (read our February 28th Market Update with our thoughts on the matter). Our quick take is that the market has overreacted to the virus threat.

Second, oil prices plummeted in overnight trading as Saudi Arabia and Russia engaged in a price war. The drop in oil prices caused a significant sell-off in energy stocks and high yield bonds. It remains to be seen how long the price war will last, but it certainly has the potential to drag on for a while. That being said, we will continue to own companies with durable business models that can weather the storm. This means a continued focus on select refiners and midstream assets with an ongoing underweight to levered energy production and service companies.

Lastly, investors continue to price in uncertainty on the political front. Clearly, the odds of an economic slowdown continue to rise with the spread of the coronavirus, and rising recession odds tend to lead to a higher possibility of a change in the White House. The market does not like change. All politics aside, the current administration has generally been viewed to be favorable for business and what's happening now is putting some of that confidence to the test.

What's Next for the Fed?

The Federal Reserve cut rates by 50 bps last Tuesday, and the market is still pricing in 75 bps of additional cuts. We expect an additional 50 bp cut at the March meeting, and if the outlook is starting to stabilize, the Fed will call a halt to its easing. If recessionary dynamics are starting to take hold, we believe the Fed would cut to zero and deploy enhanced forward guidance, yield caps, and possibly QE.

Lower rates could help stabilize the markets, but they are unlikely to be effective in aiding the economy. Lower rates won't change spending patterns, aside from additional refinancing activity. Even though the U.S. has more room to cut rates than other countries' central banks, balance sheet expansion is much more effective in stimulating the economy. We believe global central banks will probably resume asset purchases and/or QE.

Monetary policy acts with a significant lag time, and with rates this low, its effectiveness is being called into question. Therefore, we believe coordinated monetary and fiscal policy is needed.

Clark Capital Portfolio Update

Clark Capital's portfolios strive to provide meaningful diversification, opportunistic asset allocation and personalized risk management to help clients remain committed to their long-term goals regardless of the ups and downs of the markets.

The Fixed Income Total Return strategy, which had moved from 100% high yield to 50% Treasuries and 50% high yield on February 26th, has now moved to 100% short duration U.S. Treasuries. Our Global Tactical strategy, which utilizes the same relative strength signal as Fixed Income Total Return, also moved its allocation to 100% short duration U.S. Treasuries. For our portfolios that incorporate tax transition planning, we accelerated the tax transition trades that were scheduled for 2020. These would normally be completed in the April timeframe.

We continue to focus on strategically controlling risk in our portfolios and look for opportunities to pick up quality companies at discounted prices.

Key Takeaways

In analyzing health-related scares over the past 30 years, market and economic impacts have been relatively short-lived. Once the outbreaks were contained, the macroeconomic trends in place before the scare reasserted themselves. Heading into this event, the U.S. economy was on firm ground and improving.

We still think we are in a secular bull market as interest rates remain extremely low and supportive of the market's valuations. There are currently a lot of uncertainties and we know that the coronavirus news will likely get worse before it gets better.

Volatility has always created opportunity in the past, and it will again this time. Selling into panics is rarely a good strategy— as Warren Buffet says, "be fearful when others are greedy, and greedy when others are fearful." There is plenty of fear right now and rarely does making investment decisions based on emotions work out.

As we have often said, finding the appropriate asset allocation is a critical step in achieving long-term investment success. We believe the surest way for clients to achieve long-term results is to not react to short-term events.

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