



Portfolio Commentary

Navigator® SMID Cap Core U.S. Equity

Author



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Survival Requires Change

The global equity bear market made significant negative progress in 2020's 1st quarter as the COVID-19 virus spread exponentially from China through Europe and to the U.S. Global infections neared 900,000 by quarter-end (they are up to 1.5 million now), with the U.S. leading the way with nearly 200,000 cases (400,000 now). Global economic expectations have been devastated with many expecting Q2 2020 U.S. GDP declines in excess of -15%. Q1 2020 GDP growth may also be reported as negative as many states and large cities began "shelter-in-place" restrictions in mid-March.

Drastically lower economic growth expectations spread quickly to credit and equity markets. Uncertainty and fear spiked the S&P 500 Volatility Index to a record 82.89 coincident with the expansion in the high-yield corporate bond spread to 10.62%. From their highs to the March 23, 2020 low, the S&P 500 and the Russell 2000 declined 34% and 44%, respectively.

Flatten the Curve

For the greater societal good, humans worldwide have either voluntarily or have been forced to engage in isolation measures thus enduring economic, social, physical and mental suffering to fight the COVID-19 virus. Our coordinated efforts of social distance, shelter-in-place and work-from-home have appeared to "flatten the curve" of new infections/day. Hopefully, our coordinated sacrifice will both reduce the stress on the healthcare system and bide time for virologists to discover and manufacture a vaccine.

For many introverts, social distancing has been a life-long practice and thus the current social regime is not so burdensome. For extroverts starved for frequent human interaction however, new societal behaviors can be painful or stressful. While for most of us, any change in our daily routines is difficult, my biggest concern is for those who suffered job loss. Unfortunately, the March Employment Report confirmed that a recession began in March as nonfarm payrolls fell by 701,000, or the most since March 2009.

As many non-essential businesses have shuttered their doors during the preponderance of current shelter-in-place restrictions, employers will continue their effort to control labor costs. Efforts have included temporary layoffs, shortened work weeks, and the conversion of full-time workers to part-time employees. The personal and familial damage associated with unemployment can be extraordinary, and thus a quick and forceful countercyclical/counter pandemic response is critical.

Trillions and Trillions

Fortunately, the coronavirus pandemic has been met with quick and forceful global monetary and fiscal policy responses. All of the world's major central banks have committed to providing the liquidity needed to ensure smoothly functioning credit

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markets by executing open-ended asset purchases and by driving short-term lending rates to zero.

On February 16th, the U.S. Fed, for instance, lowered the federal funds rate to 0-0.25% and then committed to increasing its balance sheet by more than \$1.1 trillion in just two weeks. Global fiscal stimulus is also providing a needed economic backstop to combat the virus as Germany intends to provide programs representing of about 5% of GDP. Japan approved a nearly \$1 trillion plan or 20% of GDP and the US \$2+ trillion CARES act should be 10% of GDP.

Enormous global stimulus combined with social constraints and their initial impact on new infection rates is beginning to give equity investors much needed visibility as the length and depth of the current virus crisis and its impact on economic growth.

SMID to Benefit from Quality/Value Focus

Since inception, the Navigator® SMID Cap Core U.S. Equity strategy delivered annualized gains of 5.49% gross (2.37% net) vs. 4.91% annualized gains for the Russell 2500 Index. In the first quarter of 2020, the Navigator® SMID strategy had a loss of -31.50% gross (-32.09% net) vs. 29.72% loss in the Russell 2500 Index.

Positioning in Materials and Consumer Discretionary helped relative performance while positioning in information technology and industrials hurt performance. Our holdings in Helen of Troy and IDACORP helped performance in the quarter as positions in U.S. Foods Holding and RH hurt performance.

The value characteristics of the SMID Cap strategy remain compelling. Its current P/E of 12.2 is less than that of the S&P Mid Cap (14.6) or S&P Small Cap (17.1) indices with similar quality and business growth characteristics.

Ticker	Quarter Ending March 31, 2020	Average Weight (%)	Contribution to Return (%)
Top 5 Contributors			
HELE	Helen of Troy Limited	0.38	0.82
IDA	IDACORP, Inc.	0.16	0.31
SFM	Sprouts Farmers Markets, Inc.	0.69	0.30
TGNA	TEGNA, Inc.	1.21	0.13
UTHR	United Therapeutics Corporation	1.77	0.12
Top 5 Detractors			
USFD	US Foods Holding Corp.	2.02	-1.89
RH	RH	2.77	-1.50
ALK	Alaska Air Group, Inc.	1.43	-1.43
JLL	Jones Lang LaSalle Incorporated	2.45	-1.40
MTG	MGIC Investment Corporation	1.92	-1.39

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: Portfolio-Analytics@ccmg.com.

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Returns are presented gross and net of investment advisory fees and include the reinvestment of all income.



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The CBOE Volatility Index, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options.

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75 of U S equities.

The volatility (beta) of a client's portfolio may be greater or less than its respec-

tive benchmark. It is not possible to invest in these indices.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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