



MACRO MUSINGS

April 22, 2020

Rush Zarrabian, CFA
Portfolio Manager
Corbett Road

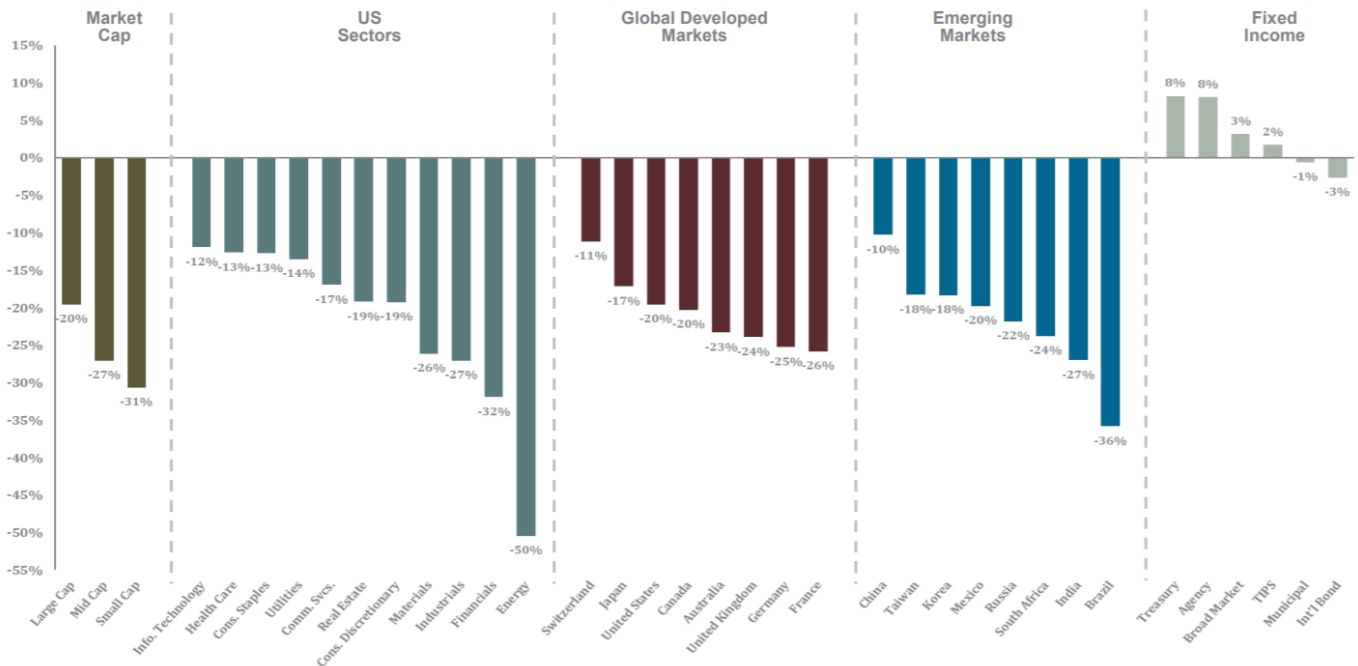
FIRST QUARTER 2020 REVIEW

SUMMARY

- **The negative score in MACROCAST™ is driven by the Technical and Aggregate Economic categories. Our indicators in the Liquidity, Inflation, and Sentiment categories remain mostly positive.**
- **Q1 was disastrous for almost all asset classes. US equities had one of their worst quarters ever, while Gold and US Treasuries saw positive gains.**
- **Risk assets have seen a strong rebound to start the second quarter, but one historical study suggests that the rebound has come too far, too fast.**

FIRST QUARTER ASSET CLASS REVIEW

Year-to-Date Performance of Various Asset Classes



Source: Factset. Asset classes are represented by the following benchmarks (in local terms): Large Cap (S&P 500), Mid Cap (Russell Mid Cap), Small Cap (Russell 2000), Cons. Discretionary (S&P 500 Sectors/Consumer Discretionary), Cons. Staples (S&P 500 Sectors/Consumer Staples), Energy (S&P 500 Sectors/Energy), Financials (S&P 500 Sectors/Financials), Health Care (S&P 500 Sectors/Health Care), Industrials (S&P 500 Sectors/Industrials), Info. Technology (S&P 500 Sectors/Info. Technology), Materials (S&P 500 Sectors/Materials), Communications Services (S&P 500 Sectors/Communications Services), Utilities (S&P 500 Sectors/Utilities), Real Estate (S&P 500 Sectors/Real Estate), Australia (MSCI Australia), Canada (MSCI Canada), France (MSCI France), Germany (MSCI Germany), Japan (MSCI Japan), Switzerland (MSCI Switzerland), United Kingdom (MSCI United Kingdom), United States (S&P 500), Brazil (MSCI Brazil), China (MSCI China), India (MSCI India), Korea (MSCI Korea), Mexico (MSCI Mexico), Russia (MSCI Russia), South Africa (MSCI South Africa), Taiwan (MSCI Taiwan), Agency (BBgBarc US Agency), Broad Market (BBgBarc US Agg. Bond), Corporate (BBgBarc US Corporate IG), High Yield (BBgBarc US Corporate HY), Municipal (BBgBarc Municipal), TIPS (BBgBarc US Treasury TIPS), Treasury (BBgBarc US Treasury)

Here is what we found most interesting about Q1 results:

- 1. Risk assets were crushed.** In one of the worst quarters in history, not a single equity sector or country saw positive returns. Remarkably, China was the best performing country down 10%. In comparison, US large caps were down 20%.
- 2. Sector performance was unsurprising.** Defensive sectors like Consumer Staples and Utilities performed the best relative to the overall market, while sectors more sensitive to economic growth, like Industrials and Financials, performed poorly. Energy stocks, devastated by the collapse in oil prices, were the worst performers, down 50%.
- 3. Traditional defensive asset classes worked.** Long-term treasury bonds have often been the best performers during bear markets, and this quarter was no different. Gold, which has a decent record in bear markets (but not perfect), also showed positive returns in Q1. However, during equity bull markets, these asset classes tend to underperform.

AFTER A BAD QUARTER, THE MARKET TENDS TO REBOUND

For only the ninth time since WWII, the stock market finished the quarter with a decline of more than 15%. Historically, the following quarters were mostly bullish, with the next six months registering positive returns every time (table from Bespoke):

S&P 500 15%+ Quarterly Drops Post WW2				
Quarter	% Chg	Next Qtr %	Next 2 Qtrs %	Next Year %
Sep-46	-18.83	2.27	1.40	1.00
Jun-62	-21.28	2.78	15.25	26.70
Jun-70	-18.87	15.80	26.72	37.10
Sep-74	-26.12	7.90	31.19	32.00
Dec-87	-23.23	4.78	10.69	12.40
Sep-01	-15.00	10.29	10.23	-21.68
Sep-02	-17.63	7.92	4.04	22.16
Dec-08	-22.56	-11.67	1.78	23.45
Mar-20	-20.00	?	?	?
	Average	5.01	12.66	16.64
	Median	6.34	10.46	22.81
	% Positive	87.5%	100.0%	87.5%
	Avg. All Other Periods	1.98	4.03	8.38

As of the April 20 close, the market's gain of 9.33% has already exceeded the median gain for the following quarter and has almost matched the median gain for the next two quarters. It is encouraging to see the market rebound so quickly after a terrible start to the year, but this study suggests most of the gains that occur following a large drop may have already been captured.

FINAL THOUGHTS

Even though MACROCAST™ is currently urging caution, we believe that the actions of the Federal Reserve and the Federal Government have taken the worst-case scenario (50%+ declines in the market) off the table.

The recent rally has led to comparisons of the current situation with the crash of 1987. Then, like now, the market crashed and fell 34% from an all-time high. **The key difference between now and then is that in 1987, the crash did not cause the economy to fall into a recession.** We are clearly in a recession now; the only question at this point is how long it will last.

The negative MACROCAST™ score suggests that the current rally may not be sustainable, **but we will update our view if the score should improve over the coming weeks/months.**

Lastly, a big thank you to all of our clients and business partners. We value the relationships and business we have with each of you and hope you and your families are safe and healthy.

The chart(s)/graph(s) shown is(are) for informational purposes only and should not be considered as a suggestion of any investment recommendation, investment strategy, or as an offer of advice to buy, sell, or exchange any investment product or investment vehicle. Past performance may not be indicative of future results. While the sources of information, including any forward-looking statements and estimates, included in this (these) chart(s)/graph(s) was deemed reliable, Corbett Road Wealth Management, Spire Wealth Management LLC, Spire Securities LLC and its affiliates do not guarantee its accuracy.

The views and opinions expressed in this article are those of the authors and do not necessarily reflect the opinions of Spire Wealth Management LLC, Spire Securities LLC or its affiliates.

All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. MACROCAST™ is a proprietary index used by Corbett Road Wealth Management to help assist in the investment decision-making process. Neither the information provided by MACROCAST™ nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. The phrase “the market” refers to the S&P 500 Total Return Index unless otherwise stated. The phrase “risk assets” refers to equities, REITs, high yield bonds, and other high volatility securities. Past performance is no guarantee of future results.

Spire Wealth Management, LLC is a Federally Registered Investment Advisory Firm. Securities offered through an affiliated company, Spire Securities, LLC, a Registered Broker/Dealer and member FINRA/SIPC