Peak Asset
MANAGEMENT

2ND QUARTER 2020 UPDATE

July 13, 2020

None of us has the luxury of choosing our challenges; fate and history provide them for us. Our job is to meet the tests we are presented.

Fed Chairman Jerome Powell

The first two quarters of 2020 have shown us what happens when nature unleashes a force, COVID-19, that is more powerful than ourselves and beyond our abilities of understanding and coping. My neighbor, a 73 year-old Nobel Prize-winning scientist, has no more idea than I do when the virus will release its grip on us and let us resume our lives with some semblance of normality. When that does happen, perhaps the lessons we will have learned by then will be twofold: respect nature and the overwhelming power it wields, and listen to and respect each other and take more care in our own personal, societal and political interactions.

Stock analysts and administration officials in Washington seem to be united in believing that the effects of the virus on the economy will be short-lived and the deep recession it caused will be over within a year, if not sooner. Treasury Secretary Steven Mnuchin said, “I think you’re going to see a spectacular rebound off the bottom in the third quarter,” and the Value Line analysts who provide us with much of the corporate earnings reports we rely upon generally agree that unless the sectors they follow have been directly harmed by virus-created shutdown (e.g., airlines, hotels, cruise lines, restaurants, etc.), profit growth should return to normal by this time next year. We are not so sanguine. It appears to us that the banking industry is a bellwether for the overall economy, and banks are now having to cope with souring loans, mortgages in default and a dismally low interest rate environment with no upturn in sight. On the other hand, the June 2020 Manufacturing ISM Report jumped to 52.6 from the previous month’s 43.1, indicating that the recession that started in March may indeed be over and that increased demand and consumption could be leading to a resumption of the growth cycle we experienced a year ago. The stock market seems to agree. Having lost 34% of its value in the breathtaking drop from last February through mid-March, the S&P 500 rebounded 20% in the quarter ended on June 30 and was down 3.1% for the year to date. A few sectors of the economy have directly benefited from the shutdown and people’s need to shop and work from home and make decisions while videoconferencing. In our Model Portfolio*, Microsoft, Apple and Google fall into this category. Full disclosure: we also hold stocks whose prospects, at least in the short term, were harmed by the downturn, most notably Wells Fargo and ConocoPhillips.

During the gut-wrenching time that the entire world experienced in the first half of this year, characterized by confusion, fear and occasional bursts of optimism, one thing that proved not to be helpful was paying obsessive attention to the media. It has been more productive to listen to the voice of hard science, which has consistently maintained that the coronavirus has not gone away and the voluntary or enforced shutdown of much of our own economy may need to be resumed or even ramped up.

During difficult times I have always gained comfort and equanimity by homing in on the companies we own in our Model and the ones we would like to own: typically, their managers can be found head-down at work trying to ignore the noise, focusing on what they do best and making the changes and improvements needed to survive and thrive in a competitive and fast-changing world. Alan Benjamin, a friend of ours who heads one such business, recently wrote in his newsletter, “When I hear CEO’s from various industries talk about their COVID-19

business issues, I cringe when they say: ‘there is no playbook.’ There is always a playbook. The playbook for every business cycle and every global crisis and every global opportunity is the same. Stick to your core values, never waiver (sic) from true integrity and transparency, and provide the highest level of service you can, every single day.”

We at Peak entered the COVID-19 crisis with historically high levels of cash and short-term bonds and bond funds, not because we knew it was coming but because after eleven years of steady ascent the stock market was fully valued if not overpriced. Our clients can expect us to continue this wary posture as the year progresses. Our analysis of the companies in our Model and those we would like to add to it, based on the current quarter and the next one, show, with a few shining exceptions, a deep downturn in their earnings. Rather than prognosticate what the markets might do in the coming year, we continue to follow the data and will let the numbers reveal what condition the economy will be in and whether the downturn is V-shaped, W-shaped or resembles the Nike swoosh.

As always, we appreciate our clients’ loyalty and trust, and we will continue to do everything we can to earn it.

Best regards,

Noel F. Bennett

**The Model Portfolio is not a real cash portfolio. It represents the core direction of our portfolio management strategies. Individual client portfolios are managed in accordance with the clients’ specific investment objectives and constraints. Historical results are available upon request.*

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