NAHMANI GRUNDER
WEALTH MANAGEMENT & MULTI-FAMILY OFFICE

Market Update

13th of March 2020

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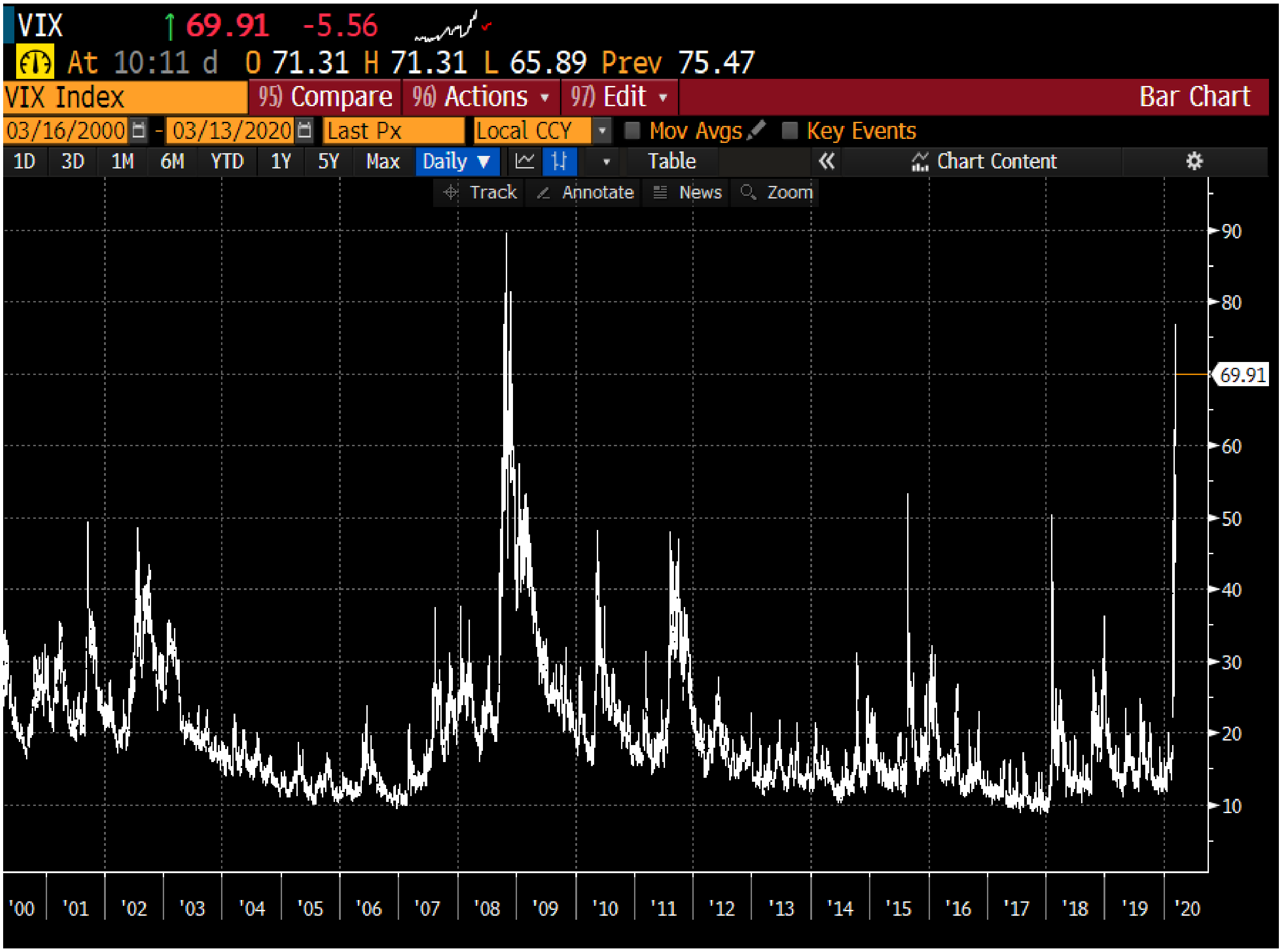
Dear Investor,

Yesterday's underwhelming and quite nervy press conference from ECB President Christine Lagarde, combined with a wider spread of the virus in the US, led to **the worst one-day slump in US and European equity markets since October 1987.**

Mr. Draghi will forever be remembered for his now famous quote in June 2012: "we will do whatever it takes; the euro is irreversible". This statement put a decisive end to the then prevailing Eurozone debt crisis. On the other side, **Ms. Lagarde started her tenure with: "We are not there to close spreads"! What a stark contrast**. We will be missing Draghi's depth of knowledge in the functioning of markets; we are even surer of this after yesterday's poor showing by Ms. Lagarde.

At the same time, we are also still **sure that the US will again come to the rescue of the global economy** with an appropriate monetary and fiscal response in due course. The NY FED's USD 1.5 trillion-repo intervention yesterday and over the next 3 days is just a testament to this. This is also part of our thesis that we will not endure a long-term global recession from the repercussions of the c-virus. The key pillars to this thesis are a slow return to normality in the Chinese economy during March/April (including Chinese manufacturing as evidenced by coal consumption) as well as the resilience of the US consumer. **The US consumer makes up 70% of US GDP, or 15% of total global GDP**. A potential agreement on a payroll tax cut, as well as enactment on paid sick pay would be first such steps to protect the spending power of the US consumer. If this ends up being a 2-quarter phenomena with a V-shaped recovery to economic activity as of Q3 2020, the below scenarios will surely hold true, albeit with cheaper cost of money and much higher levels of stimulus money in the system. That is why we think current price levels could become a massive buying opportunity with a 6 –12 month view.

Positioning levels and valuations have clearly become very attractive. On the former, all stress/panic indicators are flashing deep red. (1) The US fear gauge VIX was at 70.6 this morning, getting very close to its levels seen in the dark days of October/November 2008. The Goldman Sachs Risk Appetite Indicator (RAI) at -2.89 is already below -2.33 evidenced in October 2008. Let us be clear about this: **we clearly do not have a systemic financial crisis at hand.**



Source: Bloomberg

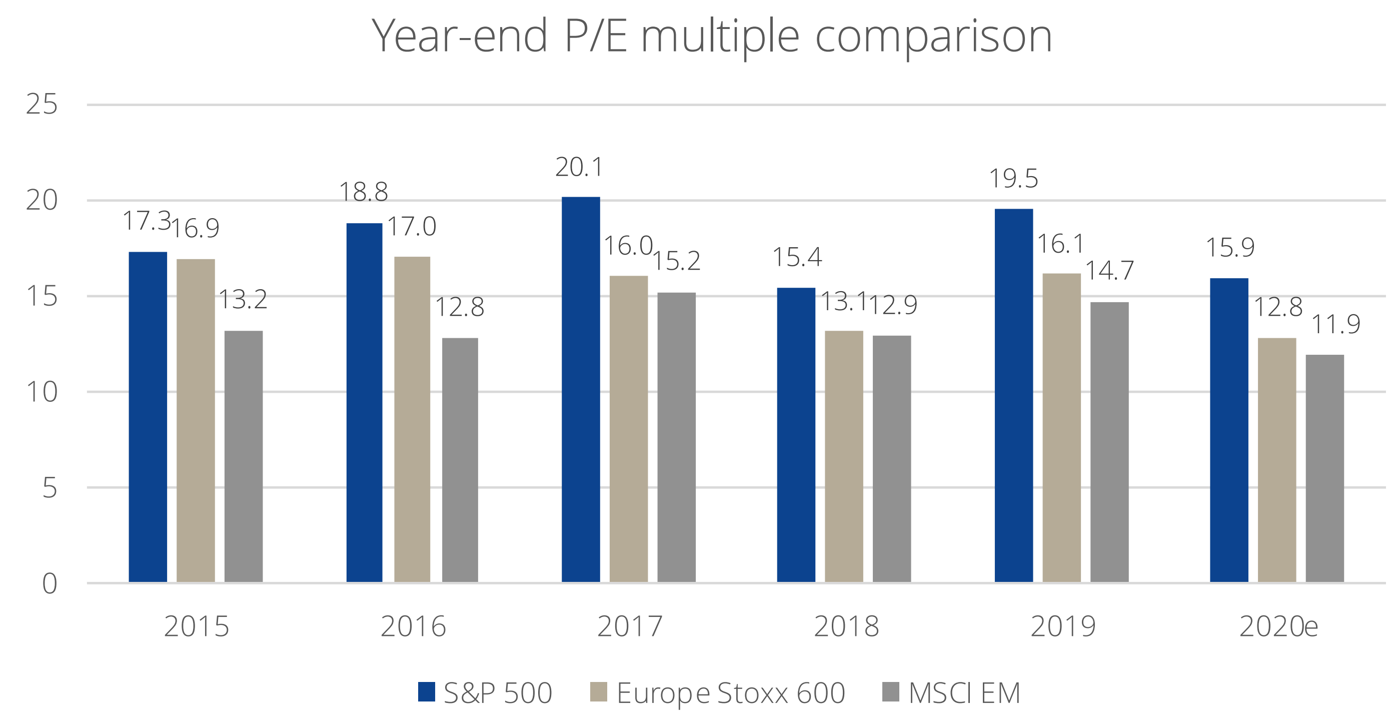
In terms of valuations: **Following the Oil price crash on Monday as well as all of the new quarantine measures announced, we further updated our EPS forecasts for the major indices yesterday:**

(1) S&P 500 EPS growth estimate in 2020e from 0% to -5% to $ 156.4
(2) Dow Jones STOXX 600 growth estimate in 2020e of -3% to -10%
(3) MSCI EM growth estimate in 2020e of -2.5% to -7%

This now assumes down Q1 and Q2 year-on-year (YoY), with a recovery to start as of Q3, albeit with Q3 still modeled as flat YoY.

On this basis, **the implied P/E 2020e multiples are as follows after the dramatic falls yesterday: S&P 500 P/E 2020e closed at 15.9x (on -5% EPS growth in 2020e) versus a 5-year historical average of 18.2x and 10-year average of 16.9x. If we are right that there will NOT be a longer duration global recession** and that this will be a V-shaped recovery as of Q3 2020, then we still think **the current market prices will be a major buying opportunity with a 9-month view**.

During the last period in which we had major recession fears in December 2018, S&P 500 valuations bottomed at 14.4x. Maybe to signify a downside floor, at that 14.4x, the implied S&P 500 would be 2,250, so another 10% lower from last night's close. <u>In our eyes, a 200 points downside versus 700 points upside (with a 12-month view) on S&P 500 translates into a very attractive 3x return/risk trade-off!</u>



Source: Nahmani Grunder

Lastly, **in yesterday's panic, there were very few places to hide**, with Gold declining by -3.5% and US BBB corporate credit spreads widening by 20bps (+75bps since mid-February) and European . Nevertheless, on an adverse outcome, these spreads would have much more room to move higher. On a relative basis, we would favor equities over credit at this point.

Source: Bloomberg

The Nahmani Grunder Investment Team