PARKSIDE INVESTMENTS

Market Commentary

February 28, 2020

Dear Clients and Friends:

Given the recent panic in the stock market, we wanted to send a brief note to share our perspective on the current state of the markets. After reaching all-time highs in the S&P 500 Index in the middle of February, the market has declined 15% thus far in just the last seven trading days. The decline can be largely attributable to a potential health pandemic emanating from China and spreading throughout the world.

Fear of the economic impact of a pandemic has gripped the markets, with stocks plunging as some participants are willing (or being forced) to sell regardless of price, creating a particularly harsh trading environment of panicked sellers and few willing buyers. Although we have no insight as to precisely how long or how economically impactful this health scare may prove to yield, we are confident that this crisis will begin to subside in a timeline measured in weeks or months – and not have a more material long-term economic impact.

Finding parallels to similar economic shocks is difficult, but the September 11, 2001 terrorist attack offers one possibility due to the significant impact to travel and leisure related industries. Immediately following the attack, airplanes were grounded, public gatherings were avoided, and the travel and leisure industry in particular suffered dramatically. Despite the meaningful psychological and behavioral impact induced by the tragic event, the direct broader economic impact proved somewhat short-lived. GDP in the U.S. declined at a 1.7% rate during the third quarter of 2001, but economic output grew at a rate of 1.1% and 3.5% in the following two quarters.

How much further does the current stock market decline have to go before the market stabilizes and the worst is behind us? As we have said before in similar circumstances, the timing is difficult to predict but history suggests markets tend to bottom well before improvement in actual economic data becomes evident. Importantly, despite the turmoil in the financial markets, credit and liquidity in the real economy is still readily available and functioning normally.

We discussed in our Market Outlook in early January that after such a strong stock market in 2019, we were taking a slightly more cautious approach by proactively, modestly, reducing equity exposure in portfolios. Through last week, we pursued this by trimming or eliminating some equity positions and using the proceeds to purchase a modest position in gold, hedged equity investments, as well as retaining slightly higher than normal bond and cash balances.

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With the meaningful short-term market declines, we are now beginning to see considerably more opportunities to redeploy the cash into companies and investments that should provide above-average risk adjusted returns over the coming years, as valuations have improved and long-term earnings capacity has not materially changed for most sectors. As we have done in previous periods of market uncertainty, we will remain patient in deploying capital and will adjust the pace and emphasis of investment should market conditions improve or deteriorate further.

This too shall pass.

Should you have any questions, feel free to give us a call.

Alan Cole	Chris Engelman
President	Managing Director

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