PARKSIDE INVESTMENTS

Market Commentary

April 20, 2020

Dear Clients/Friends:

In our last communication at the beginning of April, we discussed the dramatic turmoil in the economy and financial markets during the first quarter resulting from the Covid-19 pandemic. We highlighted our expectation that the second quarter would bring about a shift in mindset from profound fear and uncertainty to a more realistic perspective that the economy will eventually begin to re-engage and forge ahead on the road to recovery. As sentiment has changed, the S&P 500 Index has gained 9% month-to-date through April 20 and has pared its year-to-date loss to 12%. U.S. small caps and international equities have also rebounded in April, albeit at a slower pace than U.S. large cap stocks.

As we reflect on what has occurred in markets over the past two months and the implications ahead, we are likely currently in the second of a three-stage process. The first stage was the initial acute and severe reaction to events that none of us had seen or expected would occur in our lifetimes. Anxiety levels increased over concerns regarding our health, the duration for the economic shutdown, and whether we would ultimately avoid an economic depression. Each of these factors contributed to the rapid market decline in the first quarter.

The second stage consists of the initial steps taken to address both the healthcare and economic scares. Over the past few weeks, we have seen citizens adhering to shelter-in-place orders as well as the heroic steps by our medical professionals to save lives. Additionally, the brightest minds in drug research have come together to increase testing capabilities, identify better methods for contact tracing, create therapeutics to lessen the virus' effects and ultimately attempt to develop a vaccine. The daily reporting of cases and deaths remains grim, but the unprecedented actions have helped flatten the curve, leading to optimism that the healthcare portion of this crisis will soon begin to improve.

Although the economy remains largely closed, financial markets have reacted favorably to a combination of extraordinary fiscal and monetary measures taken by Congress and the U.S. Federal Reserve (the "Fed"). To counter the dramatic closure of the economy and the resulting unemployment, Congress has approved more than $2 trillion (so far) toward various relief programs designed to encourage companies to retain workers and provide needed financial assistance to many of the hardest hit industries. Perhaps more important to the financial markets, the Fed has expanded the list of assets it is willing to purchase, and in collaboration with the U.S.

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Treasury, has given market participants the impression that it will do “whatever it takes” to support financial markets. It is worth noting that while the above actions will have unintended long-term consequences, for now it is more important that we avoid a severe and prolonged recession.

Some market observers question the durability of the current market rebound, as it has occurred at a time when the economy largely remains shut in. Other observers note that the abundance of liquidity proffered by Congress and the Fed should inspire a continued “don’t fight the Fed” bullish sentiment. Our perspective reflects a more balanced approach, suggesting the markets will remain volatile for the next few months and trend mostly sideways until the economic outlook (either more or less favorable) becomes more certain.

The third and final stage of this market progression will consist of federal and state governments developing and initiating strategies to re-engage economic activity. Though it is clear the first half of 2020 will reflect a deep recession, it is just as likely that we see a sharp pick-up in economic activity sometime in the second half of this year. While unemployment levels may remain elevated over the next few years, corporate earnings could very well rebound back to peak levels in 2021-2022 as companies operate more productively even under more challenging economic growth conditions. Although certain industries will take longer to rebound, an equal number of companies are likely to grow faster as they adapt to changing consumer behaviors.

We believe the market in the near term will continue to favor large companies over small (due to greater financial flexibility), and U.S. stocks over foreign developed companies (due to the U.S. government’s proactive response and our stronger economic and banking system heading into the crisis). As we stated at the beginning of the month, our approach emphasizes companies with balance sheet strength to weather the economic storm and investments that we believe are substantially undervalued based on our expectations for their businesses in the next few years.

We welcome your questions/comments and wish you and your family continued good health.

Sincerely,

Alan Cole *Chris Engelman*

President Managing Director

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