All the Right Moves

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All The Right Moves is an old Tom Cruise movie from 1983 about a Serbian-American high school defensive back who seeks a college football scholarship to escape the economically depressed Pennsylvania town of Ampipe and a dead-end job working with his family in the steel mills. It occurred to me this was a good title for this period in our history because our primary role at PFP has been to make "All the Right Moves" in this market given all of the unknowns presented to us in February and March.

In February, we entered the uncharted waters of the COVID-19 pandemic, which has now unemployed 44 million Americans in its wake. Steven and I realized, in this extraordinary time of turmoil, that if this upheaval could be followed by a time of improvement, and if the COVID-19 curve could flatten the market would indeed come back. We believed there would be strong demand to get back to some degree of normalcy by summertime – this normalcy we are beginning to see, with retail sales jumping 17.7% in May.

In March, the Fed and Congress stepped up dramatically in ways we have never seen before. This added to our long-term optimism for the market. The important thing we did from the beginning of the crisis in late-February to the panic in mid-March was simple:

We did not panic.

Instead, we remained calm and implemented the following strategies:

- We stayed long in the market, hoping for a recovery we thought was likely.
- We reduced our exposure to treasuries, corporates, and other bonds in favor of dividend-producing stocks in the consumer defensive and utilities sectors.
- We took advantage of some of the equities that had been beaten up severely in late March, such as Starbucks, Boeing, Delta, Marriott, Darden Restaurants, Callaway Golf, and the energy sector.
- We maintained our overweight exposure to large-cap technology and healthcare stocks, realizing these sectors would likely be winners. That turned out to be a solid move as well.

When the stock market was in free fall back in March, we stayed firm and agreed with one of our favorite market analysts, Fundstrat Manager Tom Lee, who made the bold call of a 25% rally in April. This turned out to be the *right move*. In March, the Fed began implementing the most aggressive monetary policy in its history in response to the COVID-19 pandemic. This included increasing the money supply through several means:

- Reducing the Federal Funds rate target to zero, its minimum bound.

- Re-implementing and expanding bond repurchase programs, initially created in response to the 2008 financial crisis.
- Initiating the purchase of corporate bonds for the first time ever.

In addition, Congress has undertaken drastic efforts on the fiscal side to bridge the gap until the economy reopens, including passing the CARES Act in late March. These government actions, combined with improving headlines such as last Friday's surprisingly strong jobs report, have resulted in a dramatic recovery of the losses sustained by the COVID-19 outbreak.

Is there still a lot of risk? Yes, there is. But that is always the trade-off: as my father, Thomas Deitrick used to say, "Nothing ventured, nothing gained."

Despite this environment with so much that is unknown about what will happen with COVID-19 and how the re-openings will play out, the stocks with a lot of COVID-19 exposure have seen recent rallies. They include Delta Airlines which has rallied 60% since its lowest point on May 14th just a month ago. Of course, there are still considerable downside risks to consider for the discretionary names that have benefited from lockdown orders being lifted.

Our outlook is that this recovery may play out like the Great Recession in 2008/09 - with the hardest hit sectors recently showing the sharpest snap back. We agree with Tom Lee and expect this trend to continue to the extent that the recent turn higher continues to attract new money to the market. There is currently more than $5 trillion in money market cash on the sidelines. This dry powder may be the next catalyst to move stocks higher. Moreover, this is a Presidential Election year and the party in power typically pulls out all the stops to remain in power. The Trump administration is drawing up a proposal for a $1 trillion infrastructure bill. This would set aside much of the money for traditional infrastructure projects such as roads and bridges, though funds would also be reserved for 5G wireless infrastructure and rural broadband. The Trump administration also supports replacing the enhanced unemployment benefits, which are paid on top of traditional state-level benefits, with a cash bonus encouraging people to get back to rejoin the workforce. Again, these are major additions to the fiscal policy we already have in place and are going to basically act like another huge tax cut. With the S&P 500 closing the week at 3,100, it now sits just 300 points away from a new all-time high.