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## **Covid-19 Impacts**

We hope that you and your families are staying safe and healthy through the COVID-19 outbreak. It is times like these that remind us to appreciate our families, friends, clients, and colleagues. While a timeframe on when the virus may be contained remains uncertain, with increased testing, we expect the U.S. should follow a similar path as some of the Asian countries and Germany that have managed to tamp down spread of the virus<sup>i</sup>. In the meantime, we are all dealing with a great deal of uncertainty and disruption. The sudden closure of so many businesses and increase in unemployment is placing a tremendous strain on families as well the economy as a whole. Given how dramatically this crisis has impacted not only people's health and the healthcare system, but also the worldwide economy, the post virus world could look very different. As the timeframe lengthens, some businesses will have trouble restarting, and many that do will emerge with increased levels of debt.

## **U.S. Markets**

The U.S. equity markets peaked on February 20<sup>th</sup> <sup>ii</sup> and have been in rapid decline as COVID-19 started to spread from Asia to Europe, and then the United States. Cities in Northern Italy started to lock down, and by March 8<sup>th</sup> the entire country was locked down<sup>iii</sup>. At the end of February, we saw an outbreak of cases in Washington state, and since then the infection rate has increased exponentially across the U.S.<sup>iv</sup>, but most notably in New York<sup>v</sup>. Several states have imposed stay-at-home orders with work outside the home only permitted for essential industries<sup>vi</sup>. President Trump, once hopeful for a return to work by Easter, has extended restrictions to the end of April<sup>vii</sup>. As a result, huge parts of the economy, including airlines, cruise lines, hotels, restaurants, retailers, and other small businesses have halted with no certain end date in sight<sup>viii</sup>.

## **Oil**

In addition to COVID-19 stress, Saudi Arabia and Russia, two of the largest oil producers, refused to extend the production cuts that expired at the end of March<sup>ix</sup>. Furthermore, Saudi Arabia has indicated it will increase production and has slashed prices<sup>x</sup>. The oil price has declined from \$60/barrel to \$20/barrel<sup>xi</sup>. Even the best U.S. oil producers do not have cost levels that low, and energy company shares have declined by 50% or more this year<sup>xii</sup>. Energy production is critical to the U.S., and we believe there will be increased bankruptcies and consolidations the longer oil prices remain this low.

## **Work-From-Home**

There are bright spots as some industries are benefitting from the work-from-home environment and the race to develop a vaccine. Technology, grocery stores, consumer products, pharmaceutical, medical supplies and testing, web streaming, and communications companies are seeing positive gains<sup>xiii</sup>. Companies and schools are rapidly adapting, using video tools, remote capabilities, and better communications systems that make it much easier to work and learn at home. With the rise of e-commerce, consumers can have most things – including groceries – delivered within a day or two, making it possible for people to stay at home for longer periods. We believe strong performance in these sectors will continue post virus.

## Market Volatility

Nevertheless, this continues to be a period of volatility. With the onset of the virus, the U.S. equity markets sold off at the fastest pace on record and the volatility measures spiked to levels we had not seen since 2008, as measured by the VIX<sup>xiv</sup>. Small and mid cap stocks sold off faster than large cap stocks, and valuations have come down to low levels<sup>xv</sup>. Furthermore, on the fixed income side, credit spreads on investment-grade corporate bonds and high yield relative to Treasury bonds widened to levels we have not seen since 2008<sup>xvi</sup>. We saw volatility, even within Treasury bonds with the 10-year Treasury bond yield gyrating between 1.5% down to 0.5% back to 1.2% and down to 0.75%, all within weeks<sup>xvii</sup>. As a result, cash and gold were the only positive asset classes<sup>xviii</sup>.

## Impacts on Clients: Positioning, Cash, and Staying Invested

Clients want to understand how this impacts them and what Anchor is doing in response. First, it is worth noting that at the firm level all Anchor employees are working from home and have access to all of the same tools and resources as they would in the office. Our employees have not skipped a beat in continuing to meet clients' needs from home, and we have maintained communication with clients remotely during this time.

On the investment side, our process remains the same. For years, we have been working on upgrading our portfolios to higher-quality companies that we want to own for many years. More important now than ever are companies with low leverage and businesses that are less cyclical. As a result, we own fewer companies in many of the sectors most impacted by the virus, and that has helped the portfolios.

Coming into 2020, we were positive on the U.S. economic outlook and on the U.S. equity markets. In fact, we believe January and early February looked positive, given that phase 1 of U.S./China trade deal was signed and fourth-quarter company earnings were strong. In January, we started trimming back stocks with higher valuations and exited out of stocks where the investment thesis had changed. We also added to some existing holdings. With the sell-off in the markets starting at the end of February, we selectively paired back positions related to energy and financials, although we were underweight already. Our cash levels are higher, but we do not take a macro view relative to cash. Our cash levels are a result of our buy/sell process and ability to find value.

We have been talking to companies in our portfolios to understand their liquidity needs and how they are handling the crisis. The Federal Reserve has stepped in to support the markets in a meaningful way and has stated that it will use whatever means it has to support the markets<sup>xix</sup>. Congress has passed a \$2 trillion relief bill to help individuals and businesses, and we expect that the government will do more if needed<sup>xxi</sup>. The combination of monetary and fiscal support should provide downside protection to the economy and the markets<sup>xxii</sup>.

At Anchor, we view this as an opportunity to invest in companies we have researched and been watching for some time, waiting for the stock price to come down. The investment team is encouraged by what they are seeing and will buy when others are selling. We have seen clients through these market downturns before. One of the important things we learn each time is that markets do recover, and it is important to stay invested.

On the fixed-income side, we have been overweight in investment grade (IG) corporate bonds, given that interest rates are low, and we believe there is a better opportunity there relative to Treasury bonds. In the near term, investment-grade corporate debt has been impacted by widening credit spreads<sup>xxiii</sup>. Going forward, those spreads should narrow, and corporate bonds should perform well relative to treasuries. In addition, government support, while mitigating the impact of the shut-in, may resort in even higher federal deficits and levels of debt to be serviced in the future.



We are here to help, and we are available to talk about whatever is on your mind. Please do not hesitate to reach out. Stay safe and healthy.

## **STRATEGY DETAIL**

### **Quarterly Attribution<sup>xxiv</sup>**

<b>Security Contribution (5 Highest)</b>
Microsoft Corporation (MSFT)
Dollar General Corporation (DG)
Booz Allen Hamilton Holding Corporation Class A (BAH)
Walmart Inc. (WMT)
Abbott Laboratories (ABT)

<b>Security Contribution (5 Lowest)</b>
STORE Capital Corporation (STOR)
Truist Financial Corporation (TFC)
M&T Bank Corporation (MTB)
Lamar Advertising Company Class A (LAMR)
Chubb Limited (CB)

<b>Sector Contribution (3 Highest)</b>
Fixed Income
Materials & Processing
Utilities

<b>Sector Contribution (3 Lowest)</b>
Financial Services
Consumer Discretionary
Health Care

### **Quarterly Purchases**

- NiSource Inc (NI)
- Insperity Inc (NSP)
- Fidelity National Information Services Inc. (FIS)
- Booz Allen Hamilton Holding Corp. (BAH)
- JPMorgan Chase & Co (JPM)
- Microsoft Corporation (MSFT)
- Progressive Corporation (PGR)
- Dollar General Corporation (DG)
- Estee Lauder Companies (EL)
- W. R. Berkley Corporation (WRB)
- Gartner Inc (IT)
- Hudson Pacific Properties (HPP)

### **Quarterly Sales**

- IAA, Inc. (IAA)
- eBay Inc. (EBAY)
- Huntington Bancshares Inc. (HBAN)
- United Bankshares, Inc. (UBSI)
- DuPont de Nemours, Inc. (DD)
- Unilever NV ADR (UN)
- Waters Corporation (WAT)
- Truist Financial Corp (TFC)

### **Further Insight: Stock Position(s)**

#### **JPMorgan Chase & Co (JPM)**

For many years, our thesis on the banking sector has been to focus on regional banks that have opportunity for loan growth and potential acquisition activity. We believe larger money center banks have fewer opportunities due to their size. What we have observed is that the large money center banks have focused their attention away from trading and investment banking more towards the retail client and wealth management (60% of revenue). This is fee generative rather than net interest margin focused. In a lower interest rate environment that is important. Moreover, big banks have been investing heavily into technology and digital banking, which helped bring in customers and reduce costs<sup>xxv</sup>. JP Morgan is the largest bank in North America and in our opinion one of the best-managed banks. It has historically been expensive<sup>xxvi</sup>, so we waited for the valuation to come down before adding it to portfolios. We believe JPMorgan has strong underwriting and risk management practices, which should help the bank withstand the current crisis.



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- <sup>i</sup> <https://www.livescience.com/germany-coronavirus-deaths-so-low.html>
- <sup>ii</sup> FactSet financial data and analytics; Charting
- <sup>iii</sup> [https://www.washingtonpost.com/world/europe/italy-coronavirus-milan-lockdown-quarantine-lombardy/2020/03/15/7864ccbe-657d-11ea-8a8e-5c5336b32760\\_story.html](https://www.washingtonpost.com/world/europe/italy-coronavirus-milan-lockdown-quarantine-lombardy/2020/03/15/7864ccbe-657d-11ea-8a8e-5c5336b32760_story.html)
- <sup>iv</sup> [https://www.washingtonpost.com/national/coronavirus-washington-state-leveling-off/2020/03/26/682790e6-6f6b-11ea-a3ec-70d7479d83f0\\_story.html](https://www.washingtonpost.com/national/coronavirus-washington-state-leveling-off/2020/03/26/682790e6-6f6b-11ea-a3ec-70d7479d83f0_story.html)
- <sup>v</sup> <https://nymag.com/intelligencer/2020/03/new-york-coronavirus-cases-updates.html>
- <sup>vi</sup> <https://www.cnn.com/2020/03/23/us/coronavirus-which-states-stay-at-home-order-trnd/index.html>
- <sup>vii</sup> <https://www.nytimes.com/2020/03/29/world/coronavirus-live-news-updates.html>
- <sup>viii</sup> <https://www.usatoday.com/story/money/2020/03/20/us-industries-being-devastated-by-the-coronavirus-travel-hotels-food/111431804/>
- <sup>ix</sup> <https://www.nytimes.com/2020/03/09/business/energy-environment/oil-opec-saudi-russia.html>
- <sup>x</sup> <https://www.nytimes.com/2020/03/08/business/saudi-arabia-oil-prices.html>
- <sup>xi</sup> FactSet financial data and analytics; Charting
- <sup>xii</sup> Ibid.
- <sup>xiii</sup> <https://www.vox.com/the-goods/2020/3/9/21168297/brands-coronavirus-benefiting-clorox-netflix>
- <sup>xiv</sup> FactSet financial data and analytics; Charting
- <sup>xv</sup> Ibid.
- <sup>xvi</sup> <https://fred.stlouisfed.org/series/BAMLCOA0CM>
- <sup>xvii</sup> FactSet financial data and analytics; Charting
- <sup>xviii</sup> Ibid.
- <sup>xix</sup> <https://seekingalpha.com/article/4333357-federal-reserve-moves-on-liquidity-arrangements>
- <sup>xx</sup> <https://www.reuters.com/article/us-usa-fed-powell-analysis/powells-whatever-it-takes-pledge-puts-limits-of-feds-reach-in-spotlight-idUSKBN21335L>
- <sup>xxi</sup> <https://www.cnn.com/2020/03/27/politics/coronavirus-stimulus-house-vote/index.html>
- <sup>xxii</sup> <https://www.wsj.com/articles/the-fiscal-stimulus-panic-11584486678>
- <sup>xxiii</sup> <https://fred.stlouisfed.org/series/BAMLCOA0CM>
- <sup>xxiv</sup> FactSet financial data and analytics; Attribution. Security level contributors and detractors derived from equity only portion of the portfolio.
- <sup>xxv</sup> FactSet financial data and analytics
- <sup>xxvi</sup> FactSet financial data and analytics

For a complete listing of all strategies contact Anchor Capital Advisors LLC (617) 338-3800.

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