Inside Views From an Investment Management Leader

UPDATE

April 2020

About our Company

Company Profile:

Mitchell Anthony Capital Management is a private, boutique investment firm who has helped our clients grow and protect their wealth since 1991.

Key Offerings:

- *Personal wealth management*
- *Proactive investment strategies*
- *Proprietary research*
- *A professional team*
- *Fee-only services*

Distinguishing Values:

- *Passion for excellence*
- *Strategic focus*
- *A disciplined process*
- *Prudent risk management*
- *Comprehensive client care*
- *Superior long-term performance*
- *Sound judgment*
- *Objective Analysis*

MITCHELL ANTHONY
CAPITAL MANAGEMENT

9259 Research Drive
Irvine, CA 92618
Phone: 949-852-4100 or 800-497-9400
Fax: 949-852-4106
www.MitchellAnthonyCapital.com

In the News

Check out MACM's new "Beat the Bogey" YouTube Series

If you have't already, check out MACM's new "Beat the Bogey" video series, where we publish fresh and insightful investment content on a regular basis. We sift out truth from the flood of the media's twisted commentary on hot issues facing investors today. Search "Beat the Bogey" on YouTube and look for our "Beat the Bogey" series icon to find our YouTube channel homepage, or use the following link: https://www.youtube.com/channel/UCoHAvcpQWpYvLDE0Vk6RMzw

Economic Review & Outlook

Equity Markets Nosedive as Plug is Pulled on Economy

The S&P 500 fell 19.6% in Q1 2020 compared to a loss of 11.1% for MACM's Dynamic Growth Non-Qualified portfolio.

The US Economy has deflated after orders from Washington and the States as the Coronavirus rips its way across America and the globe. The US economy was unplugged just as stronger growth was beginning to emerge after a long period of modest growth since the great recession. Indeed pre-virus economic trends in the US economy were quite good. Housing was experiencing some of the best data it had seen in many quarters. Consumer spending on housing, digital devices, and experiences was accelerating. Energy prices were stable and the Fed's balance sheet was declining. Employment was at all-time highs and mortgage delinquencies at all-time lows. Consumer confidence was near all-time highs and consumer balance sheets were strong. The banking system was solid and corporate America had healthy balance sheets. There was no overcapacity in the economy and asset prices were higher across almost all asset classes. So in other words a very bad time opportunistically to have shut down the economy.

However the Fed has made it clear that good times will return and has pledged to print money and use whatever tools are necessary to inflate our way out of this crisis. The crisis is real and the US economy is now in a freefall. (pg. 4, fig. 1). Consumer services and retail are virtually shut down. There are more areas of the economy that are locked up than are open for business. The businesses that are shut down are generally operating at partial capacity and low productivity. Unfortunately the consumption engines of our economy have been turned off and all current momentum lost.

Mitchell Anthony
President
Chief Investment Officer

We have had to ask ourselves as investors to assess things that we have no previous experience in doing and that involves forecasting when the fear of the virus will be manageable. Will it only be achieved after a vaccine has been produced or will somehow the virus become extinct without vaccine and within the next 6 to 12 months?

Given all of this it was not surprising to see the equity market investor panic and as a result equity markets fell 35% within a few weeks of the first ordered lockdown. Equities across the globe encountered a sudden meltdown unseen before as recession was discounted into prices of all assets. The hardest hit areas of the equity market involved consumer services, retail, and entertainment with 40 to 70% declines as bankruptcy became a real threat to many of these industries and small businesses. Timely businesses fell for a bit but then quickly recovered and stabilized as whispers of fed intervention began to work through the marketplace. There was a sudden rally in Treasurys that was briefly interrupted by liquidity problems until the Fed stepped in with bold actions. There was stability in gold but surprisingly no rally despite tremendous fear in the marketplace.

The central bank and the Treasury quickly came to the rescue before severe damage was done in the financial markets or to the banking system.

(continued on pg. 2)

Economic Review & Outlook (continued)

(continued from pg. 1)

Fed funds was cut to zero almost immediately and credit facilities to provide liquidity to fear driven markets were set up at lightning speed.

Another round of quantitative easing began in all forms of fixed income with over 4 trillion of planned purchases anticipated by the central bank. Congress passed a 2 trillion fiscal program aimed at providing loans and grants for payroll expenses to small businesses, one-time cash for individuals, enhanced unemployment benefits, tax deferrals and tax cuts and corporate relief, lending to distressed industries and support to hospitals and healthcare providers and states and local governments. (pg. 4, fig. 2).

After investors caught their breath and had a chance to assess the actions of the central bank and U.S. Treasury, a rally in equities began. This rally was a product of the belief that the Fed was going to backstop the economy and provide whatever relief was needed to make sure this crisis does not critically injure consumers or corporate America. The Fed made it clear that he was going to inflate our way out of this crisis and print whatever money was needed to backstop the problems. The Fed even did an end around providing capital to highly distressed industries that Congress would not provide without strings. Given this unprecedented action equity markets have retraced almost half of their correction despite the unknowns that remain about the damage that will be incurred economically from this shut down.

It is clear that we are in a recession and the globe will be in a recession through the end of this year. It is also clear that this era of highly valued assets will continue and that anyone not owning real estate or stocks will not ride the train that the Fed is going to fuel with printed money that will take us out of this crisis.

The path forward for the economy in the near term is still unknown, as well as whether we will get back to work in July of this year or in January of 2021. Retail and consumer services are unlikely to restart in any significant manner pre-vaccine. Construction and manufacturing are likely to restart with cautious and measured applications in a pre-vaccine world. We see negative growth of 20 to 40% for 2020 as most of the economy will be shut down or unproductive. 2021, however is an entirely different story. The damage to business is still unknown and the speed of the recovery and return to growth will be dependent upon the extent of the damage that is done and the Fed's ability to backstop it all.

We are optimistic that the Fed will achieve his goal but it will be done with a substantial price that will be paid by anyone not able to ride the train.

We have trimmed our 50% cash position to 35% as we are cautiously optimistic and look to return to a fully invested position over the next few months if things play out as we foresee today.

Table 1: Stock & Bond Market Returns — 03/31/2020

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	-14.1%	0.6%	Small Cap Value (IWN)	-35.8%	-30.1%
Large Cap Value (IWD)	-26.7%	-17.3%	Small Cap Growth (IWO)	-26.0%	-18.9%
Europe Asia Far East (EFA)	-23.0%	-14.9%	Emerging Markets (EEM)	-23.9%	-18.2%
Invest Grade Bonds (LQD)	-3.0%	7.2%	High Yield Bonds (HYG)	-11.6%	-6.3%
Interm Treasurys (IEF)	10.5%	16.1%	Mortgage Bonds (MBB)	2.7%	6.7%

Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

Table 2: Real Estate & Commodity Returns — 03/31/2020

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	-24.6%	-17.3%	DJ Commodity Index (DJP)	-27.6%	-27.1%
Int'l Real Estate (IFGL)	-27.7%	-23.0%	Goldman Commodity (GSG)	-42.6%	-41.7%
NAREIT Residential (REZ)	-26.0%	-19.4%	Gold (GLD)	3.6%	21.3%

Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

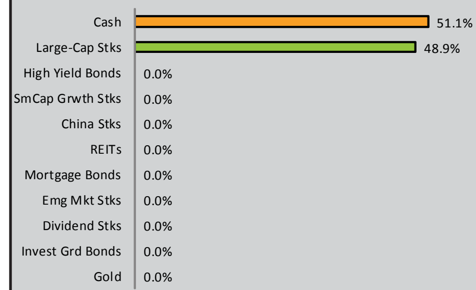
MACM Managed Accounts

Growth Portfolios

Dynamic Growth

(Qualified Accounts)

A dynamic blend of stocks, bonds, commodities, REITs, and cash for growth investors with a bias toward timely asset classes.



Growth

A portfolio of large- and mid-cap US stocks that are industry leaders with strong brands and timely products.

Diversified Equity

A global, all-cap equity portfolio following economic trends across capitalization and geographic ranges.

Focused REIT

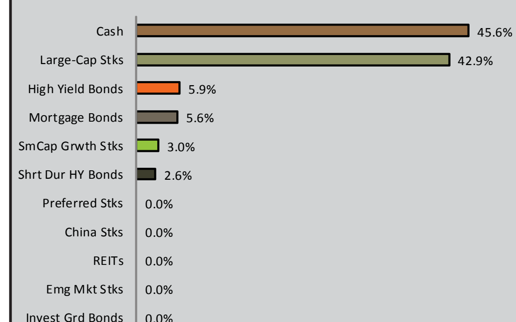
A portfolio of companies whose primary business is owning and leasing real properties.

Balanced Portfolios

Dynamic Growth & Income

(Qualified Accounts)

A portfolio of stocks, bonds, and cash for moderately-conservative investors seeking income and growth with relative stability.



MACM Research Spotlight

Coronavirus: The Path Forward

The US has been effectively shut-down almost overnight as a result of the Coronavirus. Jobless claims have soared by weekly figures never before seen in the history of our country. Indeed, the US response to slow the spread of the virus has been blunt and far-reaching. With an estimated 95% of the American population largely confined under some form of stay-at-home order, many are wondering what the path ahead holds as the U.S. looks to re-open. Let's take a look at how mitigation tactics have worked so far, and examine the promise and pitfalls of potential paths forward.

The Results So Far

First things first - have the stay-at-home orders and social distancing worked? The evidence seems to suggest that they have indeed worked to slow the spread of the virus as intended. In the early days of the Coronavirus spreading in the US, some health expert's models suggested that the death toll could easily reach one to two million people if the US did nothing to hold it at bay, with nearly 100 million or more people getting infected. While no deaths are to be taken lightly, the US has seen only a small fraction of this initial estimate – approximately 20,000 deaths to-date resulting from 550,000 infections – and the growth rate of infections seems to be rolling over. As recently as a week ago Trump's Coronavirus task force was still estimating 100-200,000 total potential deaths; even this has now has been revised further downward to 60,000.

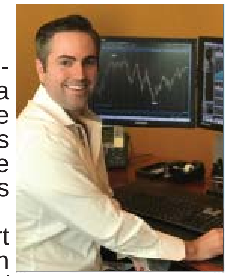
A Potential Path Forward

So, now that we seem to have worked to substantially slow the spread of the virus, what comes next? Clearly, if a vaccine was available, the country should be able to effectively re-open in full. But we're not there yet. And with each additional day of effective shutdown, many US businesses and consumers may continue to suffer. Is there a middle ground?

One of the most widely discussed blueprints for finding a middle-ground involves a 3-Phase approach, substantially as follows: [Phase 1] Slow the virus' spread through stay-at-home orders; [Phase 2] Reopen the country piecemeal by state/region, under certain conditions (I'll discuss further in a minute); and [Phase 3] Reopen the entire country when a vaccine is available. This approach was perhaps most credibly presented in a proposal penned by Dr. Scott Gottlieb, a physician and business-friendly health policy expert who was tapped by Trump in 2017 to serve as his FDA commissioner. Dr. Gottlieb has Trump's ear on policy to an extent, and Trump has indicated he has reviewed Dr. Gottlieb's proposal. Trump has expressed a clear interest in re-opening the country as soon as possible. Whether this is viable or not remains to be seen.

Of course, we are already in Phase 1 of the above 3-Phase blueprint. In Phase 2, Dr. Gottlieb suggests that states/regions can re-open if the following conditions exist:

- A sustained reduction in cases for at least 14 days;
- Hospitals in the region are safely able to treat all patients requiring hospitalization without resorting to crisis standards of care;
- The region is able to test all people with COVID-19 symptoms; and
- The region is able to conduct active monitoring of confirmed cases and their contacts.



Kyle Aron
Senior Analyst

Subsequent to this, a country-wide re-opening is possible in Phase 3 as soon as a vaccine becomes available. With an effective a "soft-open" prior to having a vaccine, this approach certainly may seem to have some appeal. However, questions remain as to its viability.

For one, the resources and man-power effort required in Phase 2 to identify all people with symptoms, and effectively trace the movement/interaction of any known carrier, would be tremendous. Countries like China have done this to some extent, but the government there exerts substantially more control over its people than in the US. However, this is not to say it can't be done; tech giants Apple and Google have opt-in tracking solutions in the works that could provide substantial assistance here.

Second, it would remain to be seen who would actually be willing to go back out "into the wild" in Phase 2. As anti-body testing becomes available, those who are already immune could re-enter society, as perhaps could those who have little risk and are not known to be infected. However, given that this virus has shown to be transmittable while carriers are asymptomatic, those at high risk and possibly others would choose to remain isolated. Given that some portion of the population would potentially remain isolated, businesses would be faced with the task of evaluating re-opening, re-staffing, etc in the face of uncertain demand. This could be problematic.

Moreover, the virus may prove to spread more than anticipated once a "soft-open" happens, and result in another round of stay-at-home orders. This would cause further disruption to consumers and business. We've already seen this re-lockdown happen in places like Singapore and Taiwan, where the countries initially re-opened as the virus seemed under control, only to see themselves reverse course.

Thus, this blueprint of a "soft-open" 3-Phase approach seems an uncertain path at best. It's tough to know just how problematic the risks posed above present in this scenario, however, which may warrant a cautious attempt at this approach.

Closing Thoughts

I understand I haven't painted a perfectly rosy picture with respect to getting back to normal anytime soon. This is not to say that there can't be upside surprises. Phase 2 could be attempted with widespread success, particularly as Americans crave a return to normalcy. Several therapeutics are set to report on clinical trials imminently (e.g. Remdesivir), which could be readily available for widespread use. Other treatments are already being implemented with some degree of success (e.g., Hydroxychloroquine). Meanwhile the world is working feverishly to produce a vaccine. At some point in the not-too-distant future this pandemic should definitively be stomped out. From an investment perspective, however, the Government's colossal support measures may well have provided a floor under equities, enabling investors to look past some near-term pain and possibly see further upside.

Equity Market Spotlight: Sector Performance

	Quarterly Change	Trailing 12-Months
Healthcare	-12.4%	-1.17%
Technology	-12.5%	8.6%
Consumer Staples	-13.2%	-1.5%
Utilities	-14.2%	-3.4%
Comm Services	-17.4%	-3.7%
Consumer Disc	-19.8%	-10.7%
Real Estate	-22.9%	-15.1%
Materials	-27.0%	-18.3%
Industrials	-27.3%	-19.3%
Financials	-32.6%	-18.5%
Energy	-51.3%	-53.7%

2020 Q1: Coronavirus Roils Markets

Equity markets were sharply lower in the first quarter of 2020 as Coronavirus rocked the globe. Cyclical sectors like Financials and Industrials were among the worst performers. Indeed, cyclical names are typically the laggards when markets are confronting a recession. Conversely, defensive segments led the pack, with Healthcare and Consumer Staples out in front. Technology also came out on top for the quarter, at least in part due to strong secular trends already in place that may be less impacted by the virus. Moreover, the unique nature of this virus in forcing Americans to adopt technology to continue business operations more remotely likely aided the segment's outperformance.

Data based upon Russell 1000 Index and GICS sectors. Source: Bloomberg Financial

A Word from our Client Team

Dane May
Client Relations Manager
& Research Analyst

Coronavirus Aid, Relief, & Economic Security Act - What it Means for You

On March 27th President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) meant to address the economic fallout of the current pandemic in the United States. Included in the $2.2 trillion dollar stimulus package are provisions changing the rules for retirement accounts. As many of you own retirement accounts which are impacted by these provisions it is important for you to understand the potential opportunities which are now available.

What are the benefits?

1. The deadline for contributions to retirement plans have been extended. Because the final due date for filing tax returns has been postponed, this includes the ability to make contributions to an IRA for 2019 until July 15th, 2020.
2. The law suspends, for 2020, the Required Minimum Distribution (RMD) the government requires people take from their qualified (tax-deferred) retirement accounts. As most retirement plans have decreased in value since December 31, 2019 (when RMDs for the calendar year 2020 are calculated), by taking a distribution in 2020 you would be paying more income tax and selling assets at lower values. With this new legislation, you now can retain tax-deferred savings until at least 2021.
3. The law includes a wavier of the early withdrawal penalty. The waiving of the 10% early withdrawal penalty on distributions taken before a plan participant turns 59.5 allows those who have experienced financial hardship because of Coronavirus, quarantine or other factors can withdraw up to $100,000 in 2020 from a retirement plan without incurring the 10% penalty. Keep in mind these withdrawals are still subject to income tax (you can elect to spread the income over a 3 year period beginning 2020). In the event you take the distribution and end up not needing some or all you can repay back to your retirement plan within 3 years of receipt.

What types of accounts are impacted by the provisions?

- IRA
- 401(k)
- Profit Sharing Plans
- Inherited IRA
- Roth 401(k)
- 403(b)

I've already taken a RMD this year, can I put it back in my account?

Yes - with a caveat - if you redeposit the withdrawal back into the account within 60-days of having taken it then you can put the RMD back. Keep in mind you will have to replace the taxes that were withheld from the distribution as well.

Have any additional questions to your specific situation? Give me a call at 949-853-4100 x102 and we can discuss!

Economic & Financial Market Charts

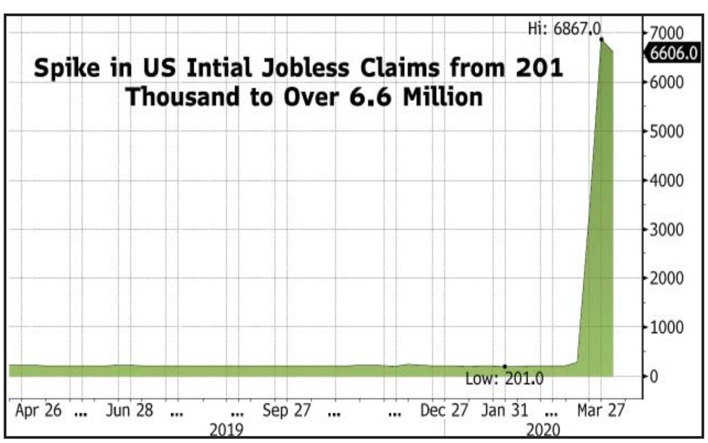


Figure 1 - Source: MACM / Bloomberg Financial
Graph of unprecedented spike in Jobless Claims

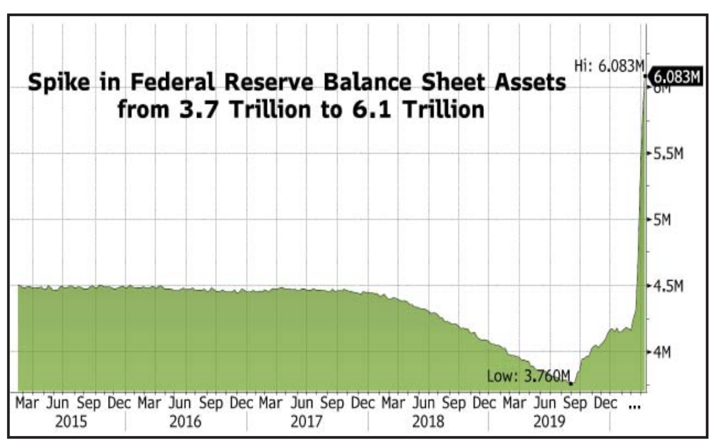


Figure 2 - Source: MACM / Bloomberg Financial
Graph of Fed Balance Sheet showing recent expansion