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APRIL 2020 MONTHLY COMMENTARY
CHAOS IS CHANGE IN REAL TIME

Before I begin talking about the markets and the investment outlook, I want to emphasize that the team that supports Seven Summits Capital and I are all taking the most stringent cautionary measures to ensure that we all stay healthy. I strongly encourage every one of you to avoid taking any unnecessary risks as this virus is very infectious and can lead to serious health consequences for ANYONE if the virus infects the lungs. Be safe and look out for your loved ones, this pandemic will pass, and at that time, we can all return to our regular social and work lives.

Just a few weeks ago, I published the Seven Summits Capital Monthly Investment Muse for March. At the time, the United States was reporting only a few hundred cases of COVID-19 cases, but the equity market had already dropped more than 10%. However, I wrote the following:

Given where broad equity market index valuation stood on February 19th, it is plausible that the S&P 500, currently sitting just under 3000, could correct down to the 2,300 -2,600 level if economic growth slows dramatically for a couple of quarters, but we certainly could avoid a deep recession.

On Monday, March 22nd, the S&P 500 closed at 2192, which was followed by a significant rebound, closing at 2540 on Friday, March 27th. Currently, my base case is that the S&P 500 will continue with above average volatility, but remain in a point range between 2200 and 2800. This base case assumes that economic activity, as measured by GDP, was near 1% for the first quarter of 2020 and that a sharp and deep recession began in March 2020 and will persist well into the third quarter. The United States will likely see unemployment rise dramatically from below 4% to well above 10% as economic activity is essentially frozen by authorities to minimize the spread of the COVID-19 pandemic. From a portfolio management standpoint, the most impactful forecasting will not be to pinpoint when the exponential growth of the virus begins to flatten or when the markets find their absolute low point. Instead, the most important assessment will be focused on what will economic activity and more specifically, consumer behavior look like in the aftermath of this currently unspecified, but finite pandemic period.

“Change is the law of life, and those who look only to the past and present are certain to miss the future.”

- John F. Kennedy

High probability outcomes:

1. The economic contraction has been abrupt and will cause severe hardships for many individuals, families, small businesses, and larger businesses that have a heavy debt load and high fixed costs.
2. Industries such as Travel & Leisure, including airlines, hotels, cruise ships, casinos and gaming, and restaurants, will experience a hangover period

where consumer behavior will be altered. Many businesses that rely upon travel and activities that inherently result in close physical contact will likely have to adapt their business practices to a post-pandemic world.

3. Our health system's readiness for the current crisis is proving that a highly decentralized healthcare delivery system has significant shortcomings. After the 2008-09 financial crisis, which exposed a significant weakness in the capital reserves of many of our largest financial institutions, regulations were enacted to mandate and subsequently stress test capital reserves in many of those institutions. I would expect similar regulatory actions for hospital systems.
4. The move away from physical retailers toward online commerce providers will likely accelerate as a result of the pandemic recession period. This will be bearish for oil demand and bullish for cloud and 5G technology infrastructure companies.
5. Crisis readiness issues, including a flexible and increasingly remote workforce, ample financial flexibility, geographic diversification, and a broad product and service offerings to include "essential" business lines, will advantage larger companies.
6. Supply chain strategies, including "just in time inventory" and global sourcing within particular essential industries, will likely come under increased scrutiny and will need to be addressed.

More uncertain potential outcomes:

1. From a national security and health policy perspective, it is possible that this pandemic will dramatically change consumer behavior and lead to significantly higher precautionary government actions?
2. As countries around the world struggle to contain the COVID-19 virus pandemic, the hardships from these actions may further bolster nationalism, which has resurfaced here and around the world over the last several years.
3. We may see a merging of this century's two most disruptive threats, terrorism, and now viral pandemic disease converge. COVID-19 is providing a real-life demonstration of just how devastating a disease pandemic can be in both human and economic terms, which could encourage terrorists to move from shock value violence to biological terrorism.
4. The unprecedented fiscal and monetary stimulus will not be without significant future ramifications. Expanded Central Bank balance sheets are inflationary. Fiscal deficits must be funded through debt issuance, which adds to a nation's sovereign debt load. This extraordinary debt load can only be paid back through tax revenue increases and cuts in spending on government spending. Increased money supply will lead to higher inflation. The combination provides a recipe for stagflation.
5. Forget about a revival of brick and motor retailers. Online shopping will fully come of age as a result of COVID-19. This pandemic will force stubborn older baby boomers to learn how to order everything from household cleaners, paper products, and groceries online. Many slow adopters will finally succumb to Amazon, Door Dash, Uber Eats, Chewy, and Fresh Direct.
6. The necessity of virtual meetings and remote work could change forever how employers view physical interaction versus virtual interaction. This shift has been occurring in the workplace since the advent of the Internet. However, COVID-19 may indeed provide clear evidence that virtual work and meetings are safer, more cost-efficient, and productive. The loser in such an acceleration of virtual work and meetings will be the carbon fuel industry, which has been in decline over the last 20 years. The beneficiaries will be cloud and networking technology companies.
7. Lastly, financial services companies will likely see a permanent increased use of touchless payment services and technology such as Paypal's Venmo. Investment risk will once again come into focus

for many investors, particularly soon to be retired baby boomers and impressionable millennials. Simply trusting the market through the use of passive mutual funds and ETF's or "Factor" funds will no longer be seen as low-cost and safe.

The public security markets can be cruel and violent when investors let their guard down. Before February 19th, 2020, the U.S. equity markets had gone ten years with nothing more than a few short 5-15% corrections and one steeper three month correction at the end of 2018. For years, investors have been preached to by the likes of Vanguard, Schwab, Fidelity, and Blackrock regarding the virtue of "low cost" passive investments.

The binary choice investors have been presented with was to either rely on blind faith in the markets, either as a do it yourself investor or hire an advisor who charges 1% to 2% to purchase the entire market and occasionally advise you to stay the course. The current crisis should cause investors to reject this flawed binary choice. Technology, culture, and the occasional unforeseen crisis can destroy entire industries and conversely give rise to many new transformational companies. It makes no sense for many investors to resign themselves to owning by default, eroding and zombie companies held within widely diversified passive investment vehicles. Furthermore, such investors miss out on meaningful exposure to smaller ascendant businesses which represent future industry leaders. Seven Summits Captial has always been and always will be focused on opportunities within companies, not the market et al.

Active management, as practiced by Seven Summits Capital, means that we focus on individual companies and attempt to manage risk and opportunity created by an inefficient and many times irrational public market. We fully understand the wealth destroying flaws inherent in the broad market and attempt to mitigate these trappings. Instead of simply accepting those flaws, we work tirelessly to mitigate the associated risks and capitalize on the opportunities market inefficiencies routinely create.

For many Seven Summits Capital clients, the COVID-19 2020 pandemic market crash will be the first significant stock bear market that they have gone through with a legitimate actively managed portfolio. Last year was an outstanding performance year for most Seven Summits Capital client portfolios, and being able to deliver such performance was gratifying. However, the work we did during the first quarter of 2020 has been unparalleled in my mind. Although many portfolios, but not all, registered a negative return during the quarter, the losses were significantly mitigated in most cases through careful security selection, cautious asset allocation, and active hedging and other risk mitigation tactics.

No one knows what the next quarter will bring. Still, no matter what it is, we will be diligently working to position portfolios to seize opportunities that will mostly be realized in the future, while exercising caution in the face of elevated uncertainty.

Please be as safe as possible and keep your family healthy.

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