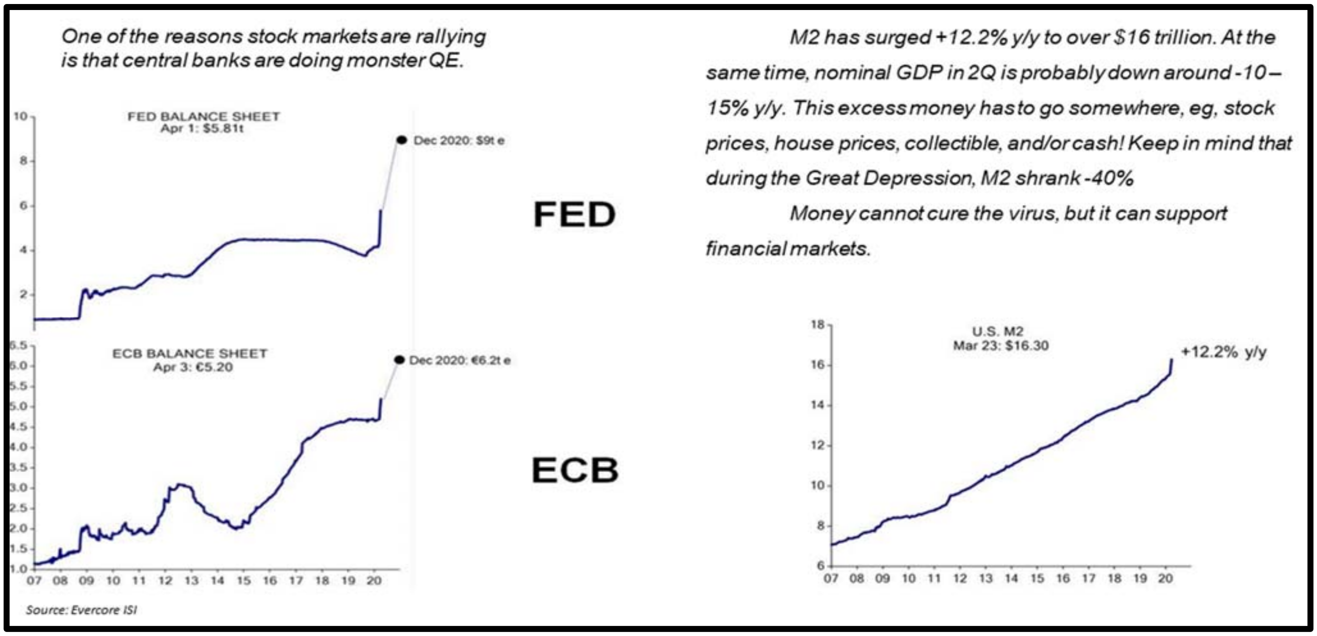
MARKET COMMENTARY **April, 2020**

"If you stick around long enough, you'll see everything in the markets. And it may have taken me to 89 years of age to throw this one into the experience." That was Warren Buffet's response to the Corona Virus Pandemic that has shocked the world, global economies and governments and the market for the first 100 days of 2020. We sit here over Easter Weekend, on the heels of Passover, the most reflective time in the Judeo-Christian calendar. In this moment of reflection, we want to share our thoughts with our clients during what is certainly one of the most momentous events in our investing lifetimes.

As we all know all too well, toward the close of 2019 reports of a dangerous virus started emanating out of what was then a lesser-known industrial region of China, Wuhan. There was little good information available and, as we recognize now, early reports from China were unreliable at best and, in retrospect, likely pernicious. Perhaps the most important detail of the virus was that it was new. In fact, "novel" was one of the words used in the scientific name of the virus. It was new in the sense that the virus had never been introduced into the population and was not subject to human immune responses. And it was highly contagious. Once the gravity of this novel and highly contagious virus in a global world was fully understood, governments in Asia, Europe, and North America moved by any historical standard with unprecedented speed and force to stop its spread. The world has been essentially shut down. This is as novel as the virus itself. It has never happened before.

The stock market doesn't like "new," particularly bad or worrisome "new". As the facts, rumors, fears and plain old-fashioned panic (e.g. a somewhat hysterical well-known hedge fund investor, Bill Ackman, went on CNBC on March 18 and said "hell is coming") played out real time in a 24/7 news cycle that feeds on excess, the stock market sold off. In fact, it was the fastest and sharpest sell-off in market history. The S&P 500 put in a year-to-date bottom on March 23, down 30% from its 2019 year-end and down 34% from the all-time high of 3386 posted on February 19, 2020.

A bottom has likely been put in, but the market rally has run a little ahead of itself having now risen roughly 25% off the recent lows as of Good Friday (but remember it takes a 52% rally to erase a 34% decline). The "do whatever it takes" stance of the Fed and policymakers means the market is unlikely to make new lows. The rally also suggests that the virus curve is bending and that a plan will soon be in place to reopen parts of the economy and allow a gradual return of the workforce.



We think the market's positive response to the current data is appropriate, if only a bit too much too soon. Let's look at the positive evidence. Testing is catching up, science and medicine are developing answers, and governments have started to focus on how to restart economic activity. The administration has also forged a pretty effective public private partnership in response to both the corona virus pandemic and the unprecedented economic shut down and job loss.

The disbursement of relief funds to individuals and businesses under the $2 trillion+ CARES Act passed by Congress on March 27th has not been glitch free. But it represents 10% of the US economy (one tenth of all that will be produced in the US over an entire year). Let's be honest, never in history has a government done anything on this scale this fast. And by using the Fed wherever possible for funding and designing the PPP loan program to go through private banks rather than the SBA it can hopefully escape typical bureaucratic inertia.

We are amazed at the speed and magnitude of our response. It is without parallel outside of war time. Kudos to Jerome Powell and the Fed, its response has been truly monumental. In less than a month, they rolled out the entire 18-month financial crisis playbook and then some. We can all be truly grateful to the Fed for stepping into the breach at a very dark hour ("hell is coming"). Our President should place Mr. Powell's bust on the mantle and kiss it every evening, maybe we all should!

Remember too that in the early innings of America's great challenges we typically have been very slow starters. But we tend to pick up steam once we get going. In the Civil War it took time for the north to mobilize and for Lincoln to find a general who would fight. We were woefully unprepared and a slow starter in WW2, but once mobilized our domestic production and military were something to behold.

It will be hard in today's divisive political environment to approach the WW2 era successes of the Manhattan project and the Marshall Plan, but we do see a public-private partnership in health and science working today in that spirit to defeat the virus. In fact, we may ultimately see a renaissance in American manufacturing and production that could transform our country and workforce. The free trade paradigm that worked so well in the Post-War World has been manipulated by China and other states to the point that without reform its costs outweigh any short-term economic gains. The virus has exposed the extent of long-term decline of domestic manufacturing and loss of control over supply chains. It no longer makes sense to outsource the production and assembly of the basic things we need. Made in America really means we cannot rely on others for the physical things or the skills that are vital to our security and health. If we can all come together on this it truly could "heal our land".

A gradual "U" rather than "V" shaped recovery

That said, we are probably a long way from the old normal. Crowded sports stadiums and theme parks, bustling restaurants and theaters all seem far away. It is likely to be an uneven road to recovery. There remain significant uncertainties including the upcoming election which complicates our response and ability to deal with this crisis. The market is ahead of itself and certainly not going to "take off" from these levels which already reflect the injection of a lot of monetary stimulus and new found optimism after a dark few weeks.

Moreover, a gradual startup of the economy by definition requires a "U" rather than "V" shaped recovery. GDP will decline this year, perhaps by as much as 5 to 10%. It may take two years for earnings to regain the levels achieved in the second half of 2019. Still, Federal Reserve Chairman Powell, in announcing last Thursday a new $2.3 trillion financing initiative targeting small businesses and corporate debt, sounded a note of optimism when he said the economic rebound following the coronavirus-induced shutdown "can be robust" despite the sharp downturn. Remember that just 6 weeks ago employment and consumer confidence were at record levels.

An investment in stocks is a bet on the future. Optimists buy stocks, those pessimistic about the future would find little value in risk assets. The corona virus challenged our collective optimism to the core. Investors have regained a measure of that confidence, if only for the moment.

In a sense the rally in risk assets reflects an increasing confidence that a vaccine will be developed in the future and the corona virus is peaking and will be contained. A hope and belief that human ingenuity will mitigate its impact over time has reduced expectations about the length and depth of the recession we have entered, and narrowed the range of possible outcomes taking the most dire scenarios off the table.

Conclusion: A resilient portfolio in a resilient economy

Long-term investors who own companies that provide basic and needed goods and services, with strong cash flows and balance sheets, certainly don't have to do anything right now. We believe great companies are currently showing their value as investments. No asset class is a sure bet in this environment, but great businesses can organically grow and respond to changes in the environment. The fiscal and monetary response to the crisis has been monumental and historic, as discussed above. The huge increase in monetary supply by definition has to find its way into the system, be it into cash, art and collectibles, real estate, stocks and bonds etc. What is taking place is unprecedented. High quality stocks can be viewed as a valuable commodity in a changing world.

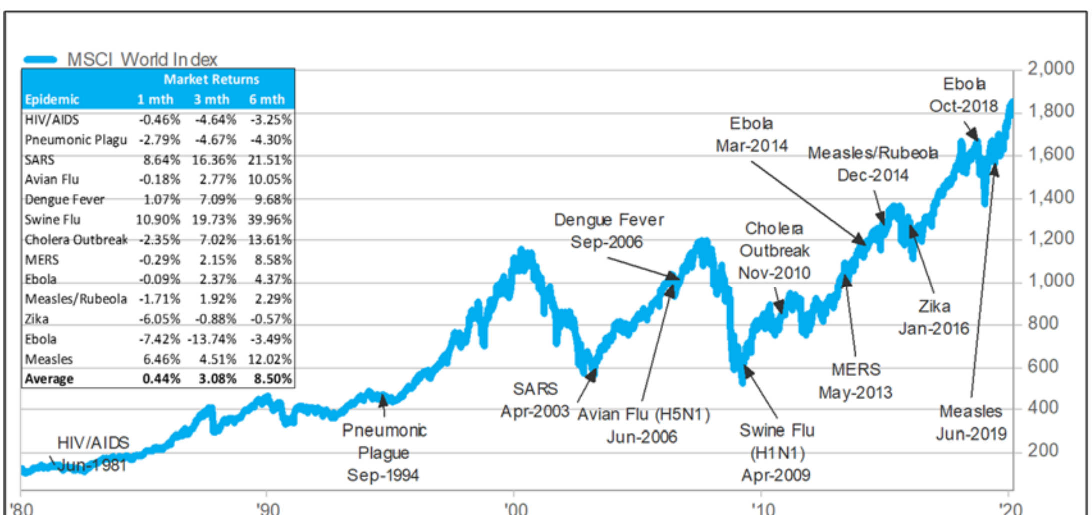
Finding and sticking with great, growing companies that make for great, growing investments has always been the foundation of what we do at Cypress. Good insight, a trained eye and a nimbleness to adjust our strategy in the wake of evolving times has benefited our clients of late. It is as important what you don't own as what you do. If you look at your portfolio you will find significant weightings in companies that are consistent growers and others that are exploiting the new disruptive economy. Likewise, you will find that we reduced weightings or exited disadvantaged industries like energy and traditional retail and banking years ago at much higher prices, resulting in stronger relative and absolute performance.

Finally, we are struck by a sense of gratitude. We take stock and thank our lucky stars that we live in the greatest, most innovative and industrious country in the world. We are each protected by a constitution that guarantees individual rights and liberties unknown to most of the world. Our economic system provides opportunity, encourages competition, and is the engine of growth that sustains our way of life. America's response to the virus shows that we are a nation that cares for all of its citizens. Just take a minute and ask yourself where else you would rather be in this particular moment in time.

Likewise, we have profound gratitude for the personal and professional relationships we enjoy with each of you. In our investment lifetime we have been through Black Monday and the October 1987 crash, the dot-com bust, 9/11, the global financial crisis, and now the corona virus pandemic. We have been through many of these wars together. As investors we have all been battle hardened and learned never to underestimate the resiliency of the American economy and markets.

Federal Funds Target Level

2020			
Date	**Increase**	**Decrease**	**Level (%)**
3/16	0	100	0-0.25
3/3	0	50	1.00-1.25
2019			
Date	**Increase**	**Decrease**	**Level (%)**
10/31	0	25	1.50-1.75
9/19	0	25	1.75-2.00
8/1	0	25	2.00-2.25
2018			
Date	**Increase**	**Decrease**	**Level (%)**
12/20	25	0	2.25-2.50
9/27	25	0	2.00-2.25
6/14	25	0	1.75-2.00
3/22	25	0	1.50-1.75
2017			
Date	**Increase**	**Decrease**	**Level (%)**
12/14	25	0	1.25-1.50
6/15	25	0	1.00-1.25
3/16	25	0	0.75-1.00



Source: Cape Cod 5, FactSet data as of 2/25/2020