

Wedbush Securities



Black Swan Investing.....What to do in a pandemic

CACTTC EDUCATION CONFERENCE

10-8-2020

DON COLLINS

WEDBUSH SECURITIES

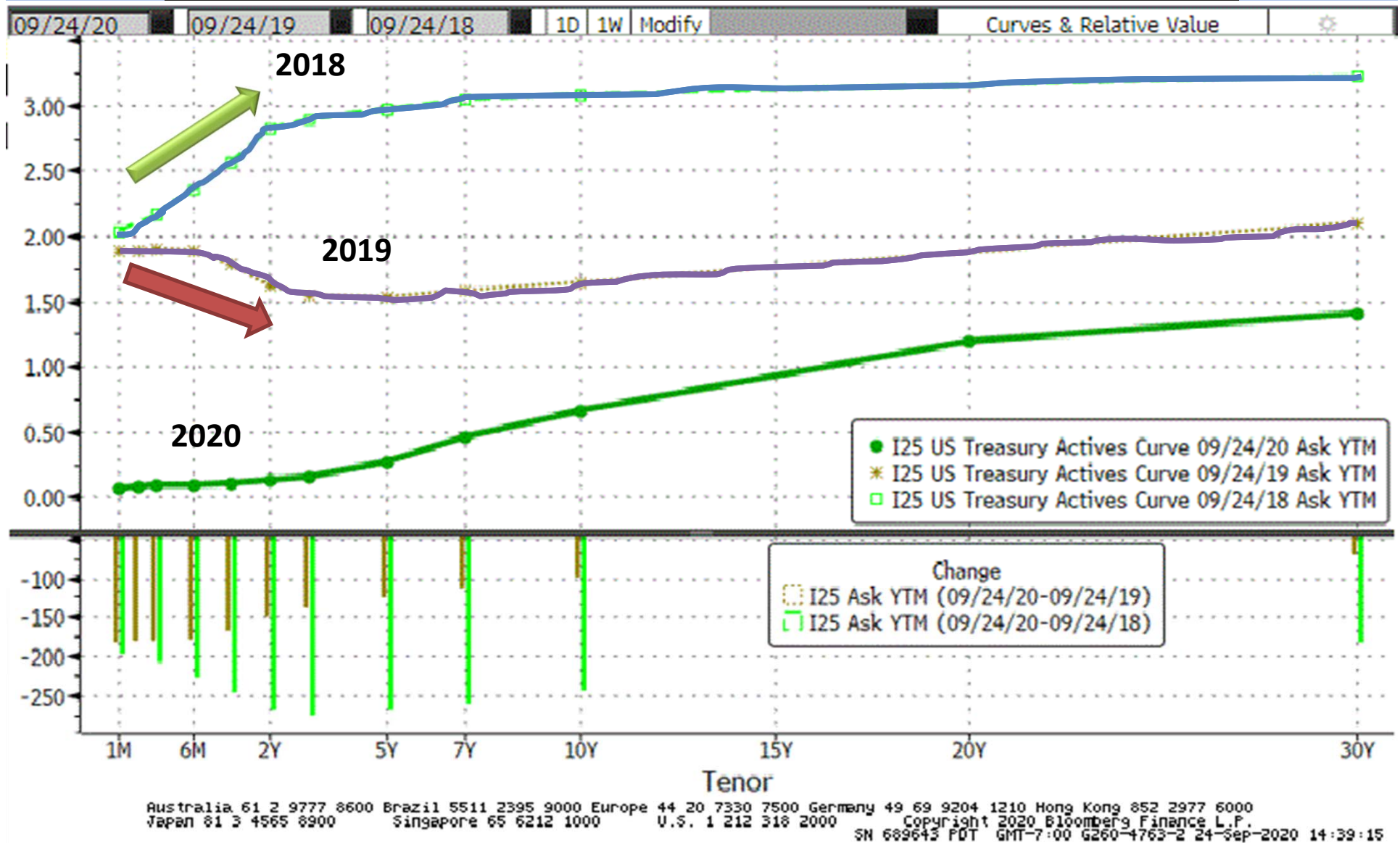
Was this a black swan event

- **Black Swan is a term coined for the disproportionate role of high-profile, hard-to-predict, and rare events that are beyond the realm of normal expectations in history, science, finance, and technology.**
- **It has become a cliché for any bad thing that surprises us**
- **White Swan**

SUMMARY

- **What has changed in society, economically, and financially**
 - Monetary Stimulus
 - Fiscal Stimulus
 - Virus – Infections, deaths, rumors, misinformation
 - Election – greed, power, fear
 - Geo-Political risks
- **Where are we today**
 - Lesson learned
 - Liquidity
 - Performance of Assets
 - Policy
- **Action Plan – Investing in a Pandemic**
 - Assess cyclical cash flow
 - Assess draw down in economic business cycle - peak to trough, time period (use GFC for guidance)
 - Asset allocation
 - Investment policy - Negative rates?
- **Predict the future?**
 - Fed projections
 - Economic projections

Rate Shift – What has changed



B. Rich ^{D.H.} HEDGEYE

WE'RE NOT
FOCUSED ON
MOVING ASSET
PRICES IN ANY
DIRECTION.



• SOURCE: HEDGEYE B. RICH

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Monetary Response

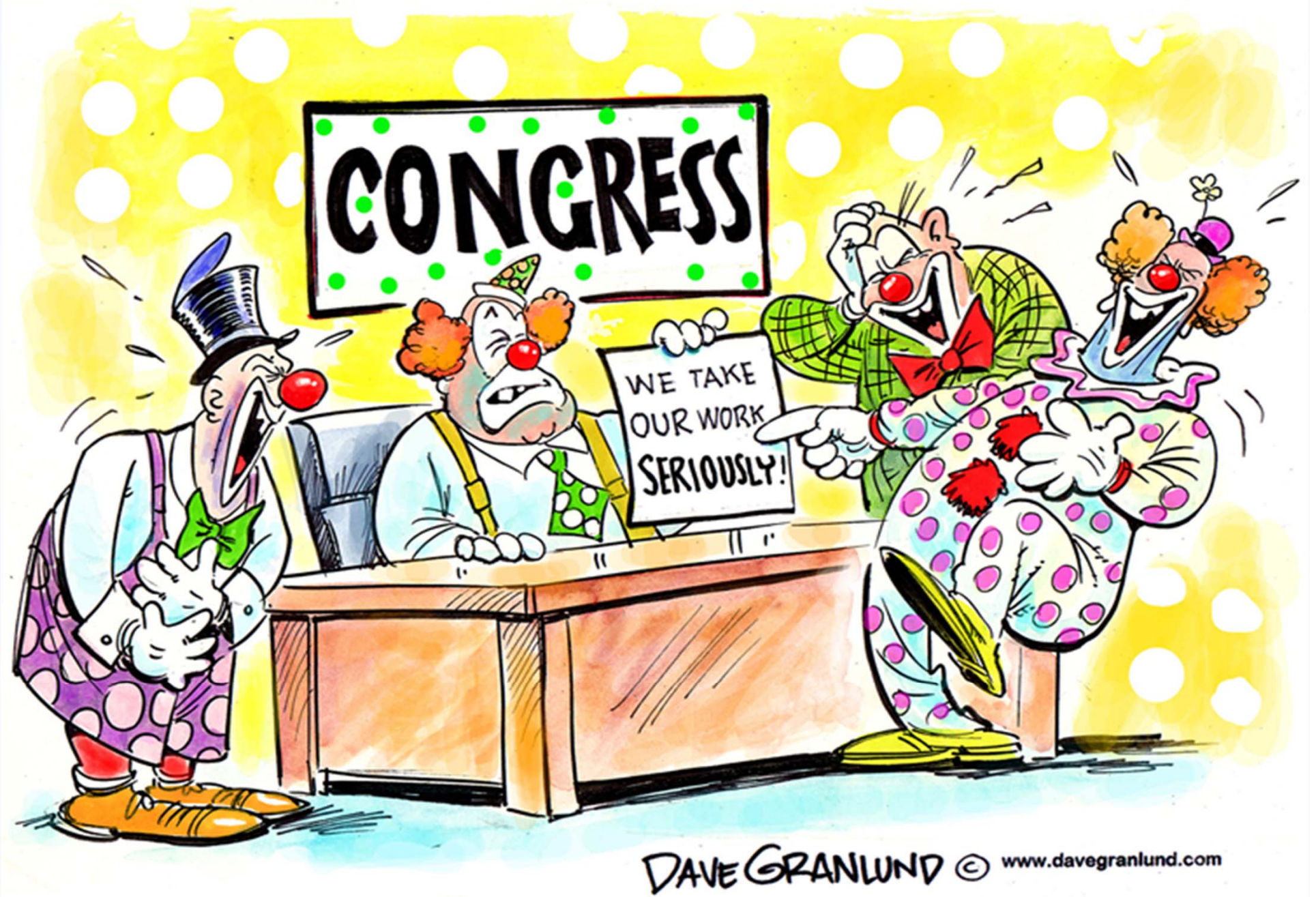
- **Supporting Financial Market Functioning**
 - **ZIRP**
 - **Forward Guidance**
 - **Securities Purchases (QE)**
 - **Primary Dealer Credit Facility (PDCF) Collateralized**
 - **Money Market Mutual Fund Liquidity Facility (MMLF)**
 - **Repo Operations**
 - **Direct Lending to Banks**
 - **Temporarily Relaxing Regulatory Requirements of Banks to Stimulate Lending**

Monetary Response

- **Supporting Corporations and Small Businesses**
 - **Direct Lending to Major Corporate Employers**
 - **Primary Market Corporate Credit Facility (PMCCF)**
 - **Secondary Market Corporate Credit Facility (SMCCF)**
 - **Commercial Paper Funding Facility (CPFF)**
 - **Main Street Lending Program, Paycheck Protection Program, New Loans Facility**
 - **Supporting Loans to Non-Profit Institutions**

Monetary Response

- **Supporting Households and Consumers**
 - **Term Asset-Backed Securities Loan Facility (TALF)**
- **Supporting State and Municipal Borrowing**
 - **Direct Lending to State and Municipal Governments (Municipal Lending Facility)**
 - **Supporting Municipal Bond Liquidity**
- **Cushioning U.S. Money Markets from International Pressures**
 - **Make U.S. Dollars Available to other Central Banks**
 - **New Repo Facility for Foreign and International Monetary Authorities**



SOURCE: DAVE GRANLUND

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Fiscal Response

- **Coronavirus Aid, Relief, and Economic Security Act (CARES) \$2.4 trillion**
 - **Direct Payments to Taxpayers**
 - **Expansion of Unemployment Benefits**
 - **Federal aid to Hospital and Healthcare Providers**
 - **Various Tax Incentives**
 - **Economic Support for Small Businesses**
 - **11th Hour Negotiations before the Election – Pelosi, Mnuchin (\$1.6t to \$2.2t)**

Virus Statistics as of 9-30-2020

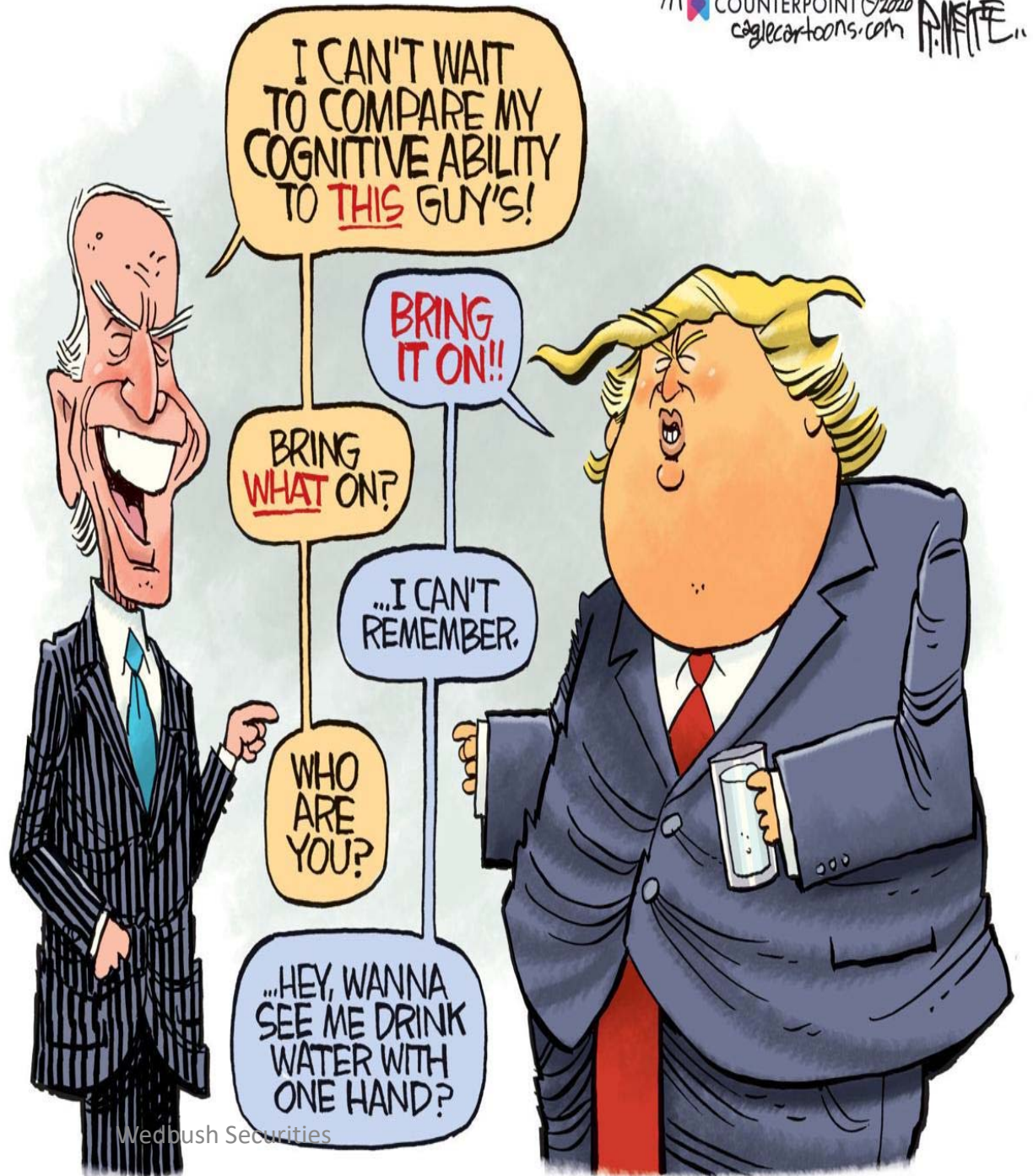
- Cases – 34.14mm Worldwide, 7.4mm U.S.
 - Deaths – 1.02mm Worldwide, 211K U.S.
 - Active Cases – 7.72mm
 - Mild – 7.65mm
 - Critical – 66k
- President Trump and FLOTUS contract covid
10-1-2020



Election

- Policy Shift
 - Taxes
 - Fiscal Stimulus
 - Supreme Court
 - Monetary Policy
 - Geopolitical Policy

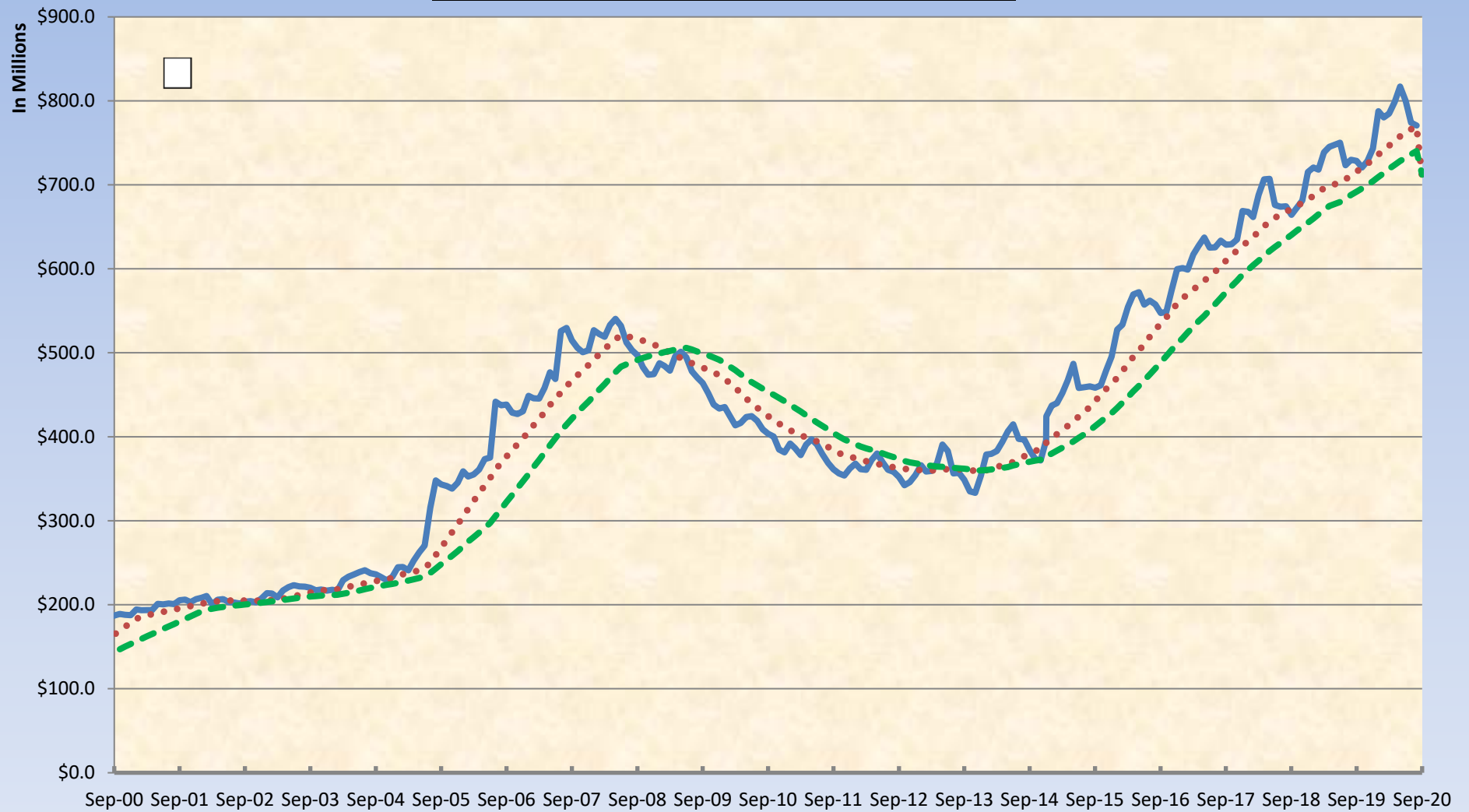
SOURCE: COUNTERPOINT ART



Lesson Learned in a pandemic

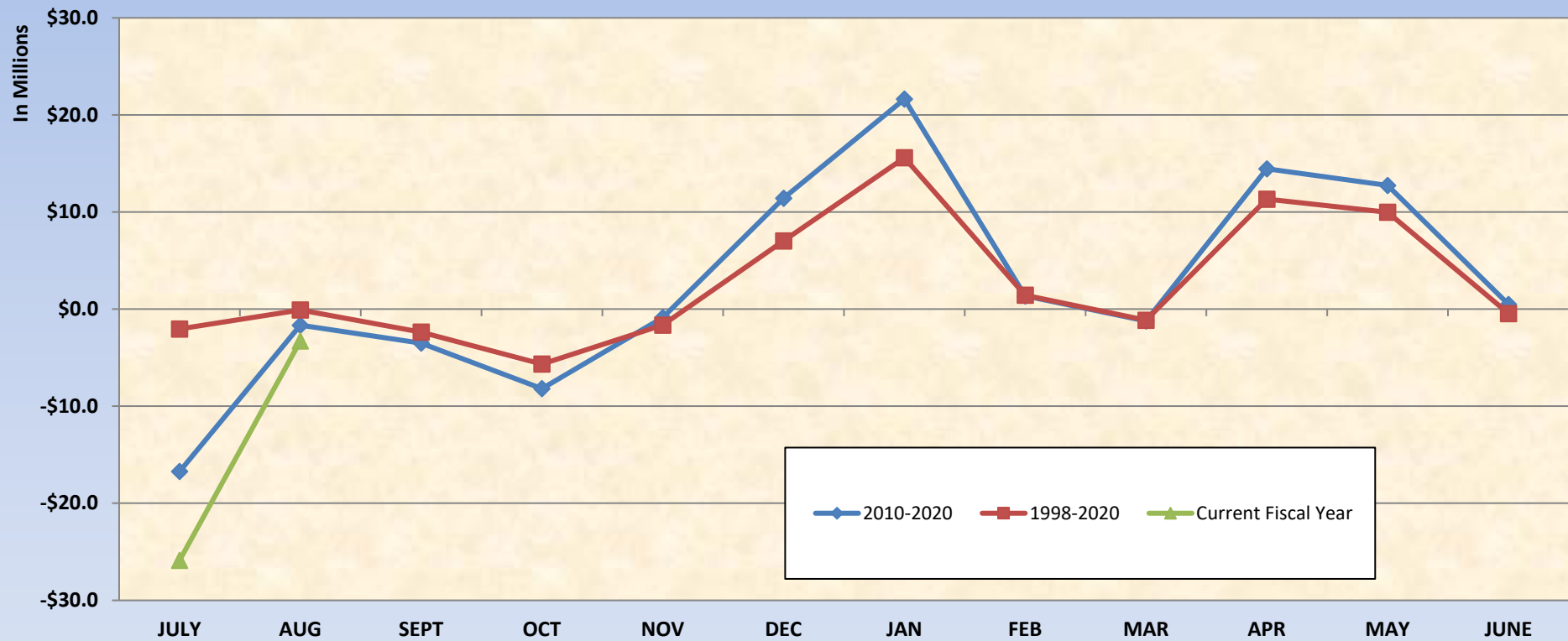
- Liquidity
 - Drawdown history (GFC)
 - What Typically Happens in a Crisis?
- Asset performance
 - Optionality – Callable Securities
 - Duration of Portfolio
 - Cash Flow
 - Credit risk
- LGIP/Short Term Investment Pool
- Cash Flow Impact, Stated and Perceived

GFC Drawdown



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Cyclical Cash Flows





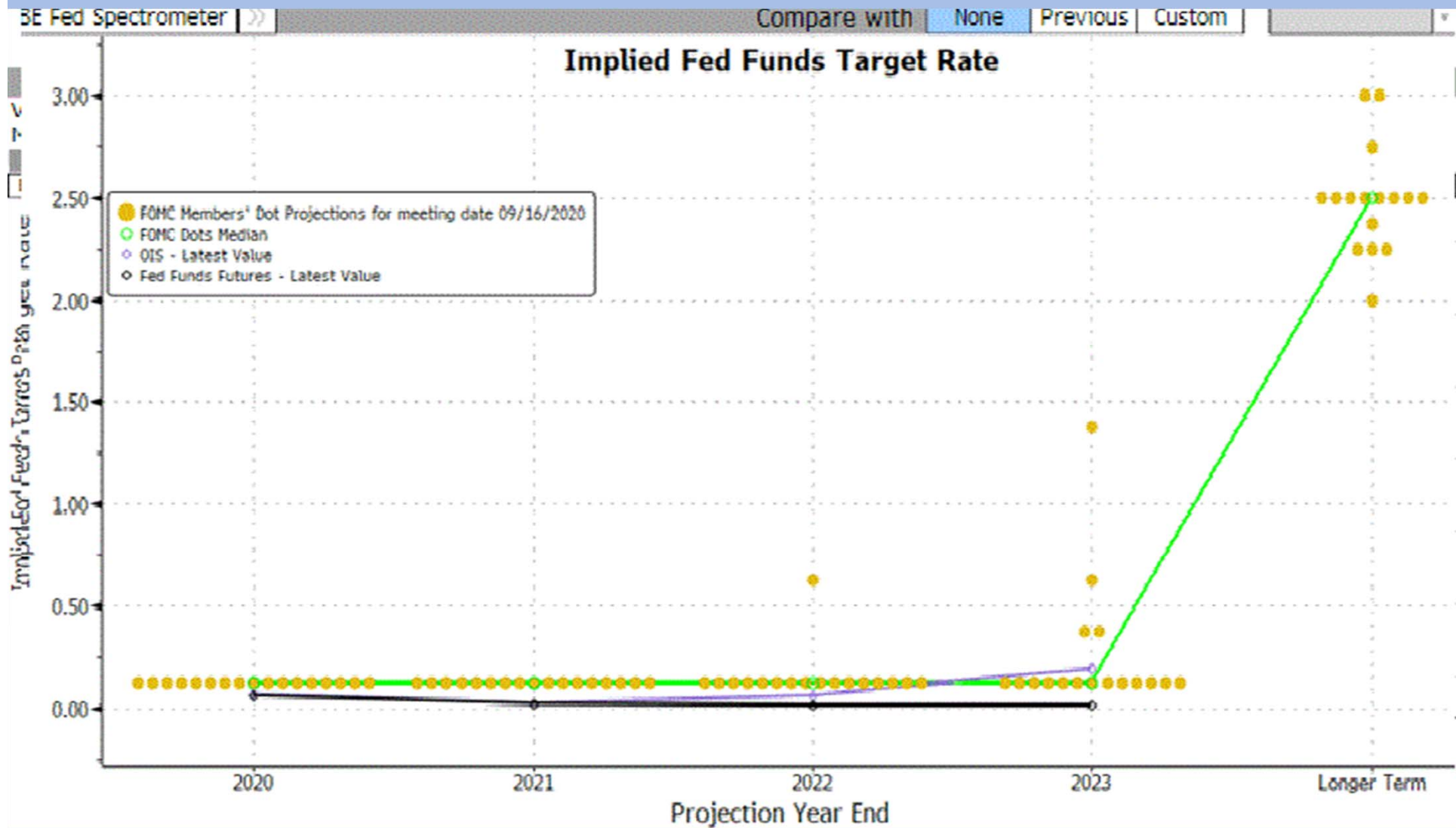
Hold Your Nose and Stay Engaged – **Forget Chasing the Holy Grail**

- **Assess Macro Environment, Economic, Political, Local, FED, etc.**
- **Assess Potential Portfolio Draw Down**
- **Asset Allocation**
 - Treasury, GSE's
 - CP
 - Municipals – Taxable GO's –high grade
 - Callable Bonds – assess break evens, state value add
 - Liquidity Pool – LAIF, CAMP, CALTRUST, ETC.
 - Credit Options – downgrade potential?
 - Asset Backed Securities
 - Bank Options – Overnight rates that are very competitive... Ask
 - Delays, Deferrals, recall the triple flip?

Predict the Future?

- FED Projections
- Economic Projections
- State Guidance
- Local, Look No Further Than Your Cash-flows.
I.E. TOT, Sales-Tax, etc.
- Bottom Line.... *Don't Attempt to Time the Markets*

FED DOTS



• SOURCE BLOOMBERG

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GOLD/COPPER - TEN YEAR TREASURY RATIO



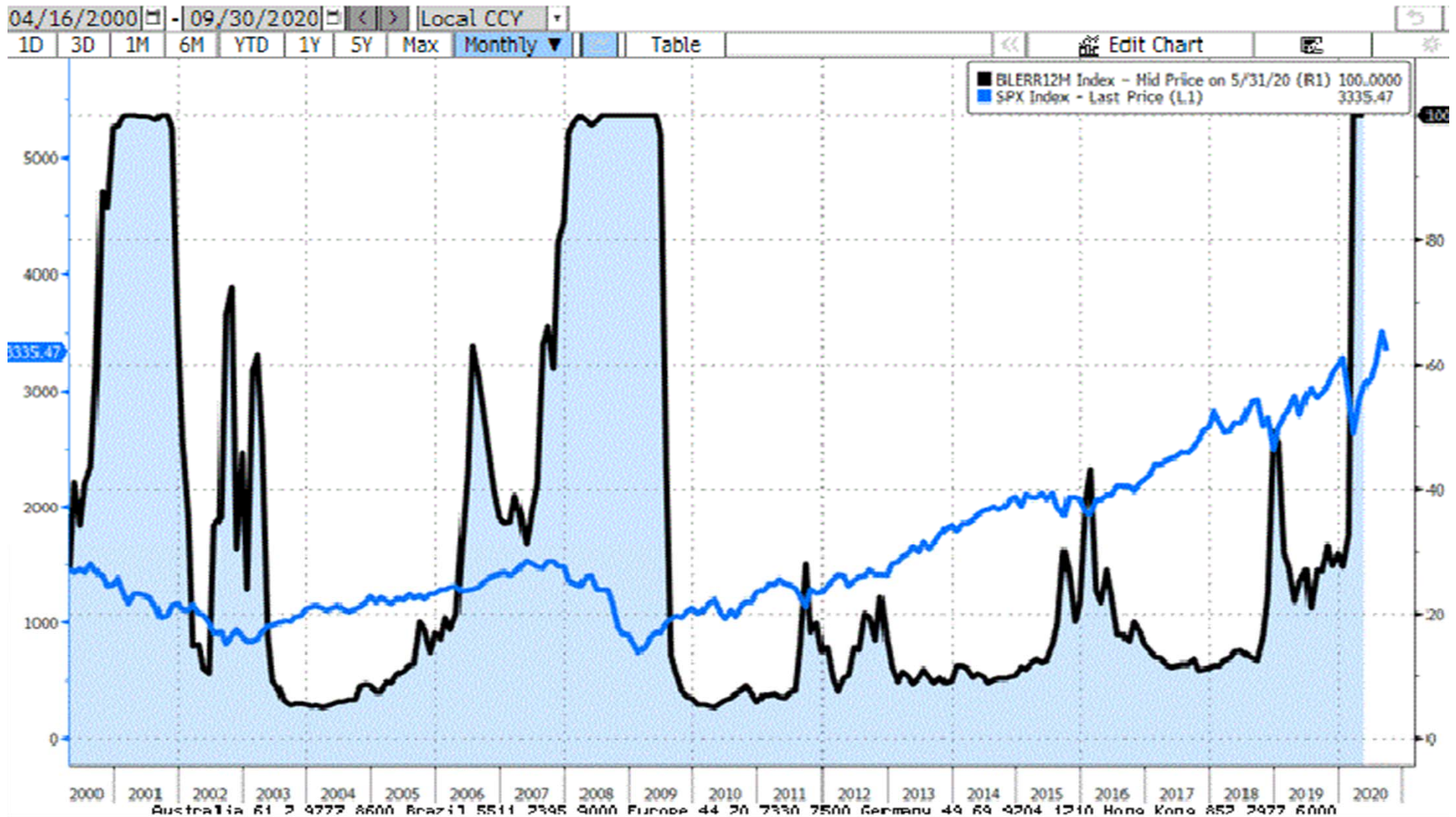
• SOURCE BLOOMBERG

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Conclusion

- **Keep it simple**
- **Stay as Long as Possible Within Your Cash-flow Constraints. Bottom line: Duration Wins**
- **Reduce Optionality Over the Long Term**
- **Revisit Your Credit Strategy. The Current Recession Has Been Mild For Investment Grade Credit Failures to Date**
- **The Deflationary Gap**

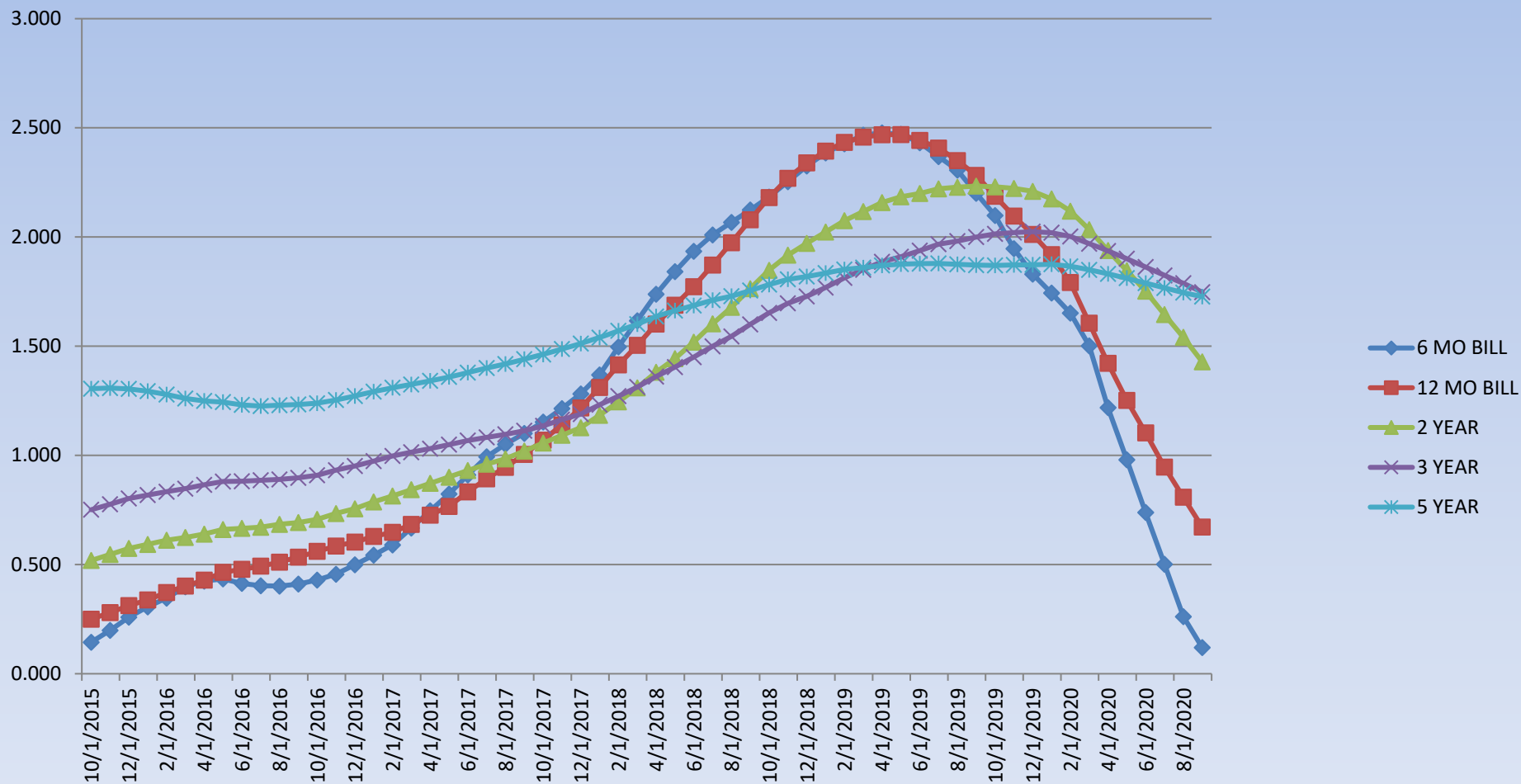
BLOOMBERG RECESSION INDEX/S&P



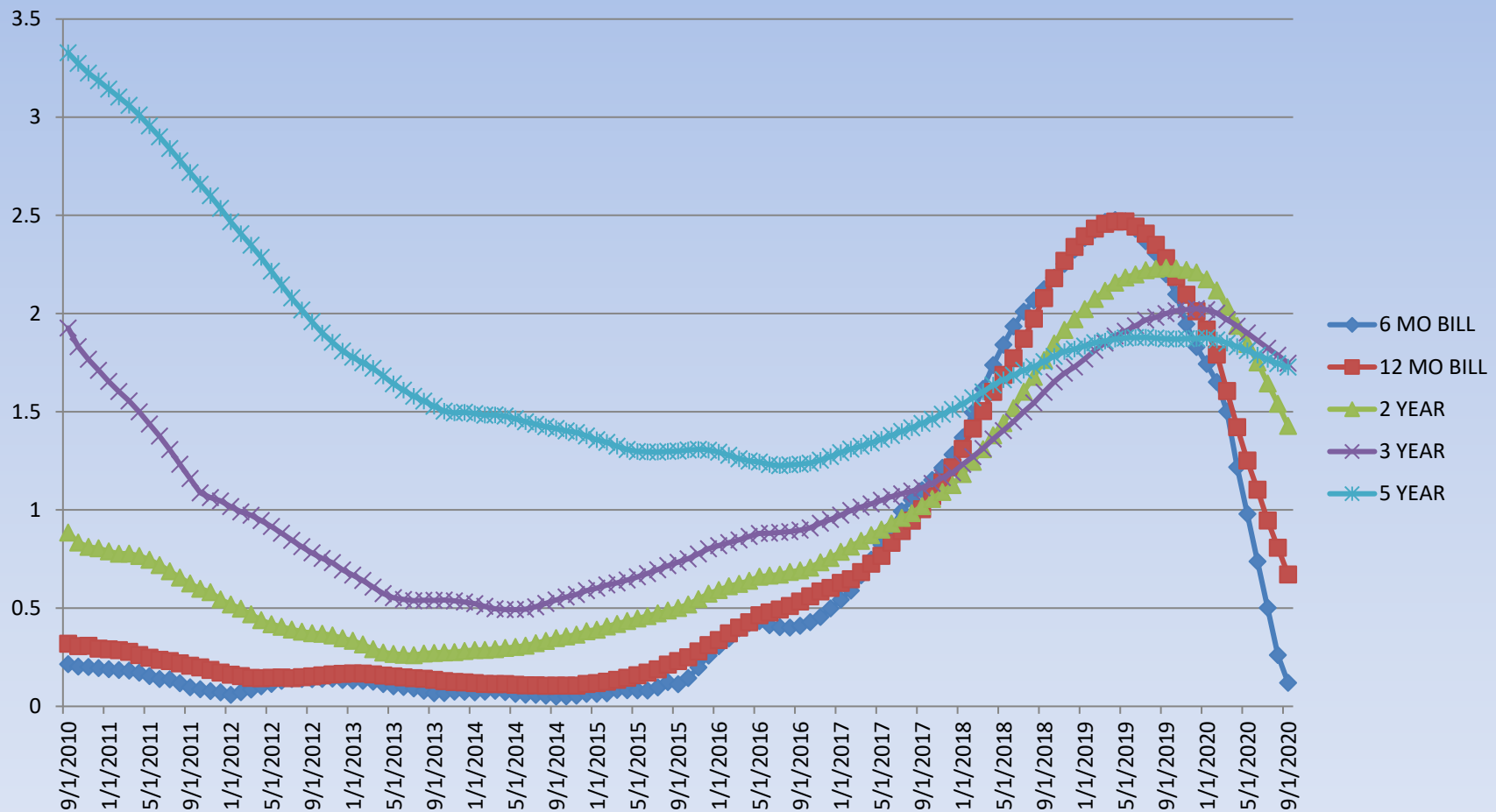
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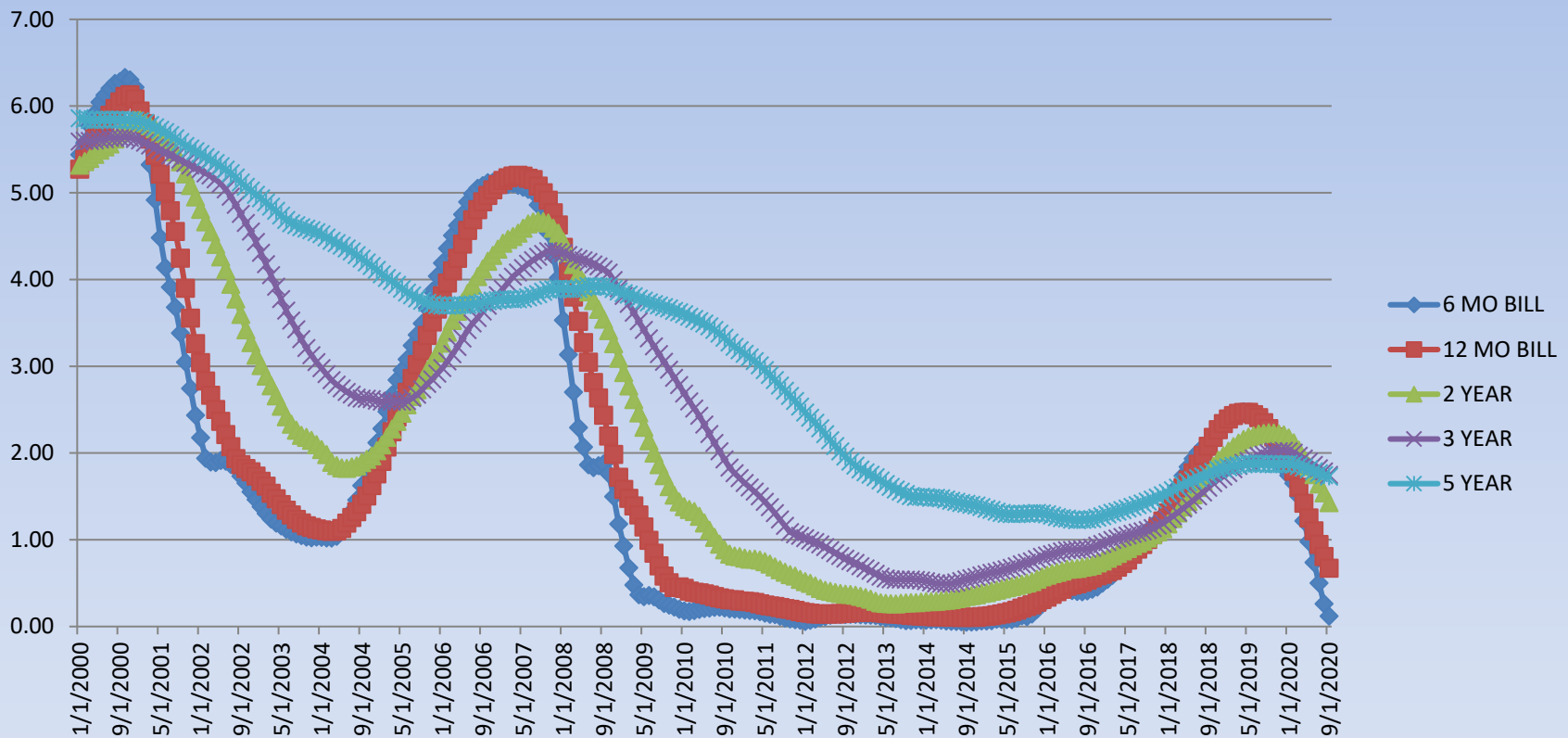
5 YEARS Average of the average (1.26% 1.31% 1.37% 1.40% 1.58%)



10 YEARS Average of the average (0.68%, 0.74%, 0.91%, 1.13%, 1.78%)

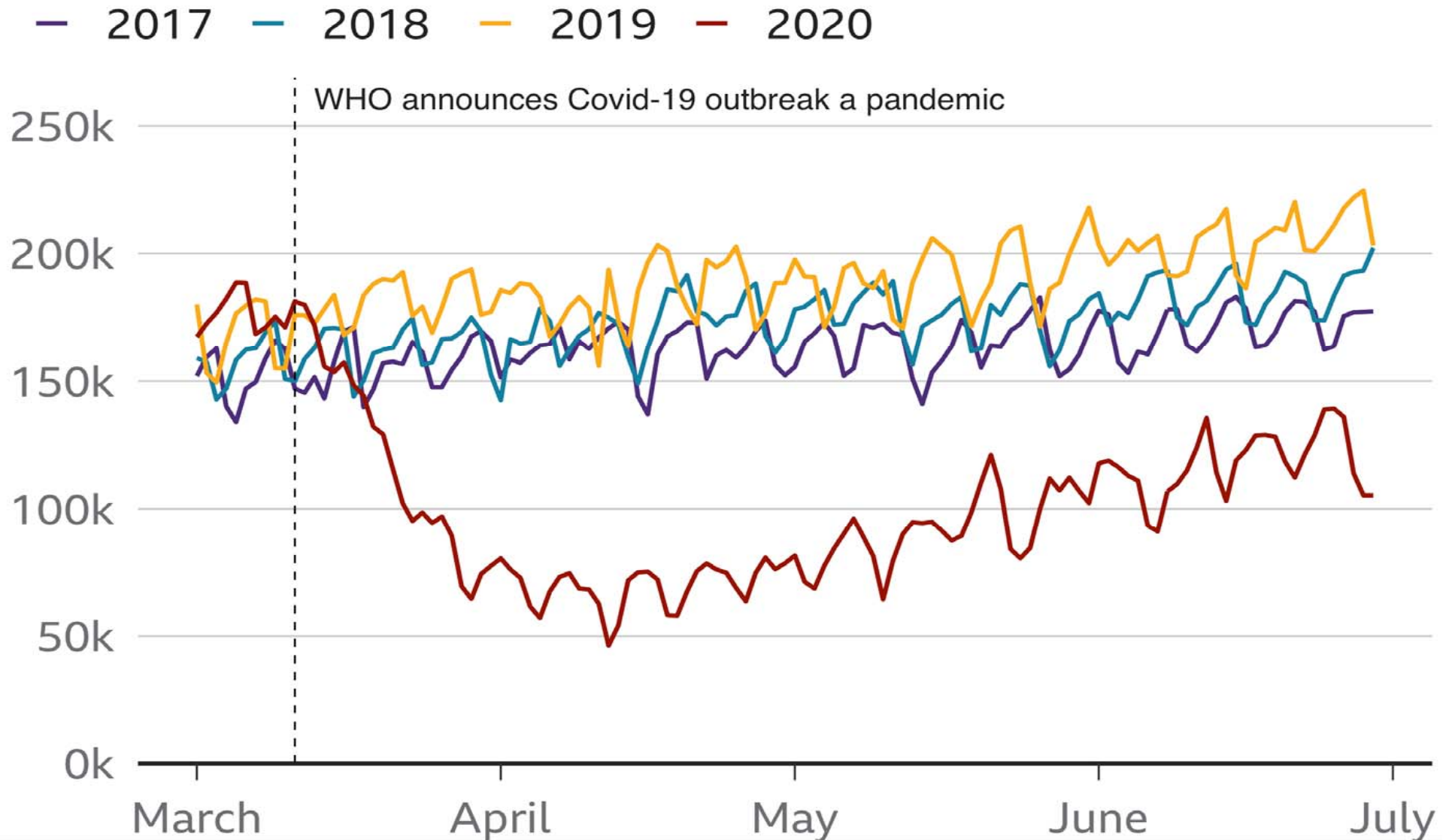


20 YEARS (1.78%, 1.90%, 2.24%,
2.56%, 3.14%)



Flights picking up again

Number of total daily flights



Source: Flightradar24, 29 June 2020, 12:00 BST

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