



**BLUE GRANITE CAPITAL, LLC**

## INVESTMENT COMMENTARY, JULY 2020

Good morning.

We hope you and your family are healthy and doing well during these crazy times.

Amid an extraordinary series of events, the stock market recorded its worst 1st quarter performance in history (-23.3%) and the largest quarterly drop from a record high. During the 2<sup>nd</sup> quarter, market bulls took control to spark the best quarterly rally for equities since 1987 (+20.54%). Market volatility of this scope was certainly warranted following the unprecedented stoppage of global commerce that left investors apprehensive about the path ahead for stocks and the economy.

Few imagined the market's rapid recovery during the pandemic lockdown. From extremely oversold conditions, it took only 53 trading sessions for the S&P 500 Index to jump 35%. This restored nearly \$10 trillion in market value that had been erased at its low on March 23. In doing so, the market recovered 60% of its decline faster than any prior rebound over the past 80 years despite little improvement in economic indicators. Though the government's stimulus and central bank intervention clearly helped to keep our economy afloat, an abundance of obstacles to a broader recovery remain.

Personal and professional behaviors rooted in the pandemic will meaningfully impact the profitability of many businesses and industries in both the near-term and beyond. Few sectors or companies have escaped the challenges of managing a crisis of unknown magnitude or duration. What's more, corporations everywhere must determine the sustainability of their long-term strategies. Navigating a rapidly changing business environment is no easy task.

A successful economic recovery requires getting millions of Americans back to work safely and developing a feasible solution to protect everyone's long-term health. Reopening thousands of businesses safely and profitably will take time. Many believe the unprecedented level of monetary stimulus from both the Fed and the U.S. Treasury will provide a sufficient catalyst for a return to "normal" growth. However, due to the essential nature of the shutdown and rapid shifts in business models (e.g. supply chains, work at home, online retailing, etc.), our main concern is whether a full recovery will look anything like our pre-pandemic economy.

In addition to the known economic consequences of the pandemic-driven shutdown, we must also consider the potential costs and challenges if the virus spreads or its cure is delayed. Recent economic and corporate earnings reports underscore the depth of the impairment, which the stock market largely ignored as it rallied off the March lows. This dichotomy between the market and the economy is largely manifested in the massive government and Fed stimulus packages that were provided, leading to expectations for renewed profitability post-pandemic. One of the keys to sustainable stock market appreciation will be clearer insight into corporate profitability and the successful deployment of these stimulus programs.

We don't believe a broad-based recovery, as witnessed in prior recessions and cyclical rebounds, is the most probable path forward. Instead, Blue Granite believes the current environment requires an intense focus on which industries and businesses are most likely to benefit and thrive as the economy regains its footing. Due to the dramatic nature of both the first and second quarter market fluctuations, history suggests that the pendulum swung too far in both directions. Investor sentiment exerts considerable influence on market direction and is driven by fear and greed intensifying selling during market drops and buying in rebounds. An added factor to the rebound is the Fed's stimulus program. It is often said that it's unwise to 'fight the Fed' and the market bounce may once again prove this true. That said, Blue Granite anticipates further volatility and quite possibly pullbacks to test previous market lows.

As always, we will adhere to our discipline of investing in stocks of the largest, financially sound companies that are leaders in their industries and best suited to weather economic challenges. Blue Granite also maintains cash reserves as "dry powder" to opportunistically buy more shares of great companies at compelling lower prices during market corrections. This enhances investment returns and helps your Blue Granite portfolio recover more rapidly from market declines in comparison to the overall market. As you know, most of these companies also pay steady dividends which is of utmost importance during times like these. Over long time periods, the income stream from dividends contributes almost as much to returns as does market appreciation. In addition to the equity holdings in your portfolio, our strategy to invest in low risk, short term bonds, to reduce portfolio risk and volatility, will further enhance overall returns.

In the coming months, the market's performance may again reflect the impact of the pandemic-led shutdown of the economy. Over the longer-term, however, we believe that this unique time has presented an abundance of opportunity for both your portfolio and our remarkably resilient country as a whole.

Stay safe and healthy and have a wonderful summer.

All our best,

Scott, John, Dave and Richard