WHERE ARE THE OPPORTUNITIES IN THIS MARKET?

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Last week we hosted two CIOs on our "Behind the Markets" podcast to see how they and their clients are reacting to the recent spike in volatility.

Our first guest was Manish Singh, CIO of Crossbridge Capital, a $4 billion wealth manager based in London. Singh utilizes a top-down macro approach to allocate capital, picking stocks for the U.S. and Europe, and ETFs or structured notes for exposures elsewhere.

Our second guest was Dave Donabedian, CIO of CIBC Private Wealth Management.

Is the Bond Trade Getting Close to an End?

Singh had expected the U.S. 10-Year Treasury yield to approach 0.5% or slightly below over the medium term, but he was surprised by how quickly rates dropped recently. He thinks there will be large fiscal measures (even overreaction) coming and so rates may be getting close to their bottoms.

While Europe moves slow, Singh even sees a loosening of the fiscal growth and stability pact, perhaps moving the limits 1%–2% of gross domestic product (GDP), which can allow more fiscal support. Singh sees very targeted needs in the health care sector, as hospitals are being completely overrun by the coronavirus.

Is There an Opportunity for Gains 12 Months Out?

Singh tweeted out last week: "panicking with the crowd usually does not pay. Over the last 25 years, every single time the NYSEDOV [a measure of down volume on the NYSE] has hit 80%, the market has finished higher in the next 12 months. Shorts be careful of the fiscal truck round the bend, don't get run over." Singh's chart on this can be found here.

1998–1999 Redux

Singh believes that fear over the virus' potential impact will create fiscal and monetary overreactions to provide support, similar to what happened in 1998—and seven months later the Federal Reserve (Fed) was hiking rates. He sees that happening again, following the virus crisis response that's being dialed up now.

Clients on Both "Buy the Dip" and "Panic Mode" Extremes

Donabedian's team has seen both types of clients calling: those who see the market moves as an overreaction and want to put some fresh cash to work, and those who feel very unsteady about what is going on. Donabedian is cautioning clients on both extremes. He sees the market valuations having improved with the drop but not being at absolute bargain levels just yet.

Donabedian is skeptical of the "bond substitute stocks"—the consumer staples, utilities and REIT names. He thinks these stocks are priced quite rich relative to their growth prospects. He also generally does not like the idea of "looking for a place to hide" within equities. If people want to hide out in equity risk, he thinks they should just take on less equity risk. Donabedian rather looks for value and growth at a reasonable price, and he still sees opportunity in technology, health care and financials.

Please listen to the full conversation below.

For standardized performance and the most recent month-end performance click here NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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DEFINITIONS

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Treasury yield : The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.