

# HUDSON ADVISOR SERVICES, INC

## OUR VIEW OF THE MARKET

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The shock of the coronavirus and its impact on the U.S. economy and the world economy has been violent and sudden. Perhaps not since 1929 have we faced such dire impact on our lives. At Hudson Advisors, we are adjusting to what some now call the “new normal.” We do not expect total collapse of our economic and financial system. But we have no illusion about a quick snap back to the way things were in February. We are prepared for a long and grueling period of uncertainty and instability.

That said, we are inherent optimists. The roots of the U.S. economic and financial system are strong. Our technology and our Federal and state resources will allow us as a nation to deal effectively with both the health issues and the economic issues within a reasonable period of time.

Going from the healthiest economy in decades to a potential depression has made us think deeply about how we and our clients should prepare and execute strategies for the long-term. Our portfolios contain stocks of the best companies in America. We are cautious about making substantial changes until we have a better sense of the market direction. We do not have perfect solutions at this time. But we are still able to provide our clients encouragement for the future.

invoked on several days when the market seemed gripped by panic.

The Dow Jones Industrial Average fell to 21917.16 by March 31 and was down 23.07% for the quarter. The S&P 500 ended at 2584.59 – a decline of 20.0%. The Nasdaq Composite index slid to 7700.10 and was down 14.18%. The Russell 2000 index ended at 1153.10 for a quarterly decline of 30.89%

**Fixed Income Market** Prices of Government bonds rose as investors sought some place to stash their assets. The yield on the 10-year Treasury note, used as a benchmark for everything from mortgages to student loans, fell 1.218 points to .691% over the quarter. (Yields move inversely to prices.) The yield has continued to decline in the early days of April.

### MAJOR MARKET INDEXES

	YTD Return
Dow Jones Industrials Composite PR	-23.07
S&P 500 Index PR	-20.00
Russell 2000 Index PR	-30.89
NASDAQ Composite PR	-14.18
EAFE Index NR	-22.83
Barclays Aggregate Bond Index TR	8.20

Source: Morningstar® as of March 31, 2020

### MARKET TRENDS

The accompanying chart summarizes stock and bond market prices for the first quarter of the year. U.S. stocks closed out their worst quarter in 12 years since the 2008 financial crisis. Meanwhile, investors rushed to the perceived safe haven of U.S. Government bonds and drove yields to lows not seen in recent financial history.

**Equity Market:** The market was strong in the first six weeks of the year, continuing the bullish trend seen in most of 2019. Then the coronavirus panic hit as business around the world came to a standstill. The selling was widespread and indiscriminate. Investors fled from stocks, commodities, and emerging market debt. The rarely used mechanisms to halt trading across the equity markets were

### THE OUTLOOK

**The Economy:** We are now in the uncharted waters of an induced recession. There is no precedent to know its likely depth or length. The U.S. GDP certainly slipped into negative territory in the first quarter. Forecasts for the second quarter range from a 12% to 35% decline. As of April 9, the Labor Department reported the loss of over 16 million jobs in the preceding three weeks. That number is certain to grow. Unlike most downturns, this one started primarily in the service sector as leisure, entertainment, and travel activities were totally closed.

The impact is global with the coronavirus now present in over 150 countries. As result, some economists are talking about economic declines as steep as the Great Depression. The economy is hostage to the virus as the protection of

public health takes priority. We accept that it may take months or longer for the virus to peak and then start to recede. Many parts of the U.S. and many countries around the globe are just in early stages of the pandemic.

Despite this dire situation, there are reasons for optimism. We believe public health officials are expanding capability to contain and manage the virus. We are encouraged at prospect of serological testing for those who contracted the virus with no or mild symptoms and have presumed immunity. This approach may allow a gradual return to work and a phased reopening of the economy. The Federal Reserve and Treasury are acting competently to provide liquidity to large corporations and banks. The Congress has acted to assist small businesses. More assistance efforts are likely. While coming months may feel like the Great Depression, we do not anticipate years of economic decline.

**The Market:** We do agree with the viewpoint that the worst of the stock market unwind may be over. Most of the recent volatility was driven by hedge funds and speculative investors. Much of their selling was to clear out trades from recent years that used borrowed and leveraged money. Those investors may now have dumped most of their dangerous trading bets. Meanwhile, long-term institutional investors such as pension funds and endowments should create a stabilizing effect. Their strategies provide for re-allocation into equities after periods of decline. Also, to the positive, the actions of the Federal Reserve and other central banks have protected the functioning of the markets.

Nonetheless, we may well see periods of further market setback. The basic determinant will be the course of the pandemic and its economic impact. Even long-term institutional investors may adjust strategies based upon how underlying events unfold. The ongoing behavior of retail investors – most of whom have not yet reacted – is highly unpredictable. We cannot forecast what months of

potential bad news about the pandemic will mean for the markets.

## OUR STRATEGIES

**Asset Allocation:** In this environment, we are not putting much emphasis on the usual models of asset allocation. We are willing to look at each client situation. We recognize that many clients may need increased liquidity in the period ahead. We might recommend more cash than usual. Other clients should stick to portfolio strategies previously identified.

**Preferred Equities:** As indicated, we are confident that our current portfolio of U.S. companies is strong for the long term. But we always look for selective buying opportunities. That goal is a special challenge now. Some stocks have done well in recent weeks serving particular needs in the pandemic. Examples would be certain biotech and consumer staple companies. The S&P 500 had 30 stocks that closed higher in the quarter. While “hot” at the moment, those companies may fall back when the broader market recovers.

Thus, our focus is on companies that can do well in both the short-term period and in a longer time frame. We want fundamentally sound companies with reasonable valuations and that pay dividends. In that context, we are favorable to consumer staples, health care, and mature technology companies.

We are inclined to U.S. companies. Compared to other countries, the U.S. is better prepared and more diversified to support a faster financial market recovery. We are far less optimistic about Europe given its mixed response to the pandemic and the previous Brexit issues. We are somewhat more positive on Asia, but the news of China’s suspicious reporting on the pandemic is concerning. On balance, we are limiting our international exposure.

Dow Jones U.S. Sectors Total Return (Percent Change for YTD, Ending March 31, 2020) <i>Source: Morningstar®</i>			
Oil & Gas	-23.07	Consumer Services	-18.85
Basic Materials	-28.94	Telecommunications	-16.83
Industrials	25.47	Utilities	-14.11
Consumer Goods	-18.22	Financials	-28.87
Health Care	-12.64	Technology	-11.77

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**Top 25 Performing Stocks 2020 (1st QTR) - US Listed companies with a market cap above \$5 Billion. Source: Telemet ®**

Issue	Name	Last	Mkt Cap	Net Pct YTD (%)	Industry Group
ZM	Zoom Video Communications, Inc	122.94	35,995	114.76	IT Services
GSX	GSX Techedu Inc.	33.63	8,367	93.78	Diversified Consumer Services
TDOC	Teladoc, Inc.	150.13	10,961	85.15	Health Care Providers & Services
BNTX	Biontech SE	52.73	12,100	72.37	Biotechnology
S	Sprint Corp.	8.62	35,441	65.45	Wireless Telecommunication Services
MRNA	Moderna Inc.	34.64	12,770	53.12	Biotechnology
CTK	CooTek Inc	6.93	21,691	41.41	Health Care Providers & Services
NET	Cloudflare Inc	23.64	6,960	37.63	Software
ZS	Zscaler, Inc.	63.31	8,189	30.88	IT Services
REGN	Regeneron Pharmaceuticals	504.27	55,480	30.04	Biotechnology
HMTLY	Hitachi Metals Ltd ADR	153.73	6,573	29.52	Basic Materials
CHWY	Chewy, Inc.	33.22	13,055	29.28	Internet & Direct Marketing Retail
CTXS	Citrix Systems Inc.	147.14	18,004	27.64	Software
BILI	Bilibili Inc ADR	25.56	8,364	25.78	Health Care Providers & Services
RNG	Ringcentral Inc.	223.1	19,433	25.64	Wireless Telecommunication Services
TSLA	Tesla, Inc.	516.24	93,616	25.26	Automobiles
DOCU	DOCUSIGN INC	90.15	16,178	24.68	Software
CCC	Clarivate Analytics Plc	20.65	6,329	23.51	Chemicals
DXCM	DexCom, Inc.	269.31	24,667	23.1	Health Care Equipment & Supplies
QGEN	Qiagen N.V.	40	9,059	23.08	Life Sciences Tools & Services
WORK	Slack Technologies Inc	24.31	13,381	19.4	Diversified Telecommunication Services
NFLX	Netflix Inc	379.96	166,729	16.05	Entertainment
DLR	Digital Realty Trust, Inc	139.5	29,161	16.01	Equity Real Estate Investment Trusts (REITs)
GILD	Gilead Sciences Inc.	77.73	98,222	15.05	Biotechnology
JD	JD.com, Inc. ADS	41.56	60,684	14.96	Internet & Direct Marketing Retail

**Bottom 25 Performing Stocks 2020 (1st QTR) - US Listed companies with a market cap above \$5 Billion. Source: Telemet ®**

Issue	Name	Last	Mkt Cap	Net Pct YTD (%)	Industry Group
RCL	Royal Caribbean Cruises Ltd	29.61	6,188	-75.9	Hotels Restaurant & Leisure
CCL	Carnival Corporation	10.21	5,381	-74.09	Hotels Restaurant & Leisure
HAL	Halliburton Company	7.91	6,960	-72.01	Energy Equipment & Services
OXY	Occidental Petroleum Corp	13.44	12,032	-71.9	Oil Gas & Consumable Fuels
FANG	Diamondback Energy, Inc.	32.1	5,081	-71.79	Oil Gas & Consumable Fuels
OKE	ONEOK Inc.	23.33	9,643	-71.18	Oil Gas & Consumable Fuels
ICAGY	International Consol. Airlines	5.65	12,385	-68.46	Airlines
VIAC	ViacomCBS Inc Class B	13.94	8,573	-66.62	Media
SLB	Schlumberger Ltd.	15.67	21,695	-66.44	Energy Equipment & Services
PBR	Petroleo Brasileiro ADS	6.14	40,047	-65.5	Oil Gas & Consumable Fuels
MGM	MGM Resorts International	12.91	6,357	-64.53	Hotels Restaurant & Leisure
UAL	United Airlines Holdings, Inc.	24.02	5,956	-64.18	Airlines
ET	Energy Transfer LP	5.54	14,902	-64.15	Oil Gas & Consumable Fuels
PBR/A	Petroleo Brasileiro ADS A	5.99	78,134	-63.87	Oil Gas & Consumable Fuels
PBRXA	Petroleo Brasileiro ADS A	5.99	78,134	-63.87	Oil Gas & Consumable Fuels
TTM	Tata Motors Ltd	4.56	15,855	-63.5	Automobiles
SPG	Simon Property Group Inc.	54.06	16,589	-63.17	Equity Real Estate Investment Trusts (REITs)
MPC	Marathon Petroleum Corp	23.09	14,997	-60.8	Oil Gas & Consumable Fuels
VIACA	ViacomCBS Inc. Class A	17.86	10,984	-60.26	Media
BKR	Baker Hughes, a GE Co. Cl A	11.75	7,673	-59.03	Energy Equipment & Services
BDORY	Banco Do Brasil SA Spns ADR	5.21	14,527	-58.61	Financials
CNQ	Canadian Nat Res Ltd	13.5	15,987	-58.11	Oil Gas & Consumable Fuels
DFS	Discover Financial Services	33.46	10,317	-57.95	Consumer Finance
RBS	RBS Group Plc ADS	2.64	15,964	-57.76	Banks
IMO	Imperial Oil Ltd cl A	12.18	9,004	-57.42	Oil Gas & Consumable Fuels