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Insights on recent market events

Market Update from Noah Blackstein

I have been managing money for a long time. I started around the Mexican peso crisis in 1994 and have run Dynamic Power American Fund since 1998, Dynamic Power Global Growth Class since 2001 and Dynamic Alpha Performance Fund since 2002. Unlike previous bear markets I have managed through this has been unprecedented. Over a 5 day period to Thursday, March 12, the Dow Jones Index has lost 28.3%, which is similar to the crash of 1929, the crash of 1987, and the post Lehman crash of 2008. The internals of the market were significantly worse. Over the past week to Thursday March 12, the number of 90% downside volume days eclipsed those of the 2008 global financial crisis, Long Term Capital Management crisis, and the Crash of 1987. The market moves have been extreme with realized volatility near 120. This means a roughly 7.5% move a day in the S&P 500 Index stocks.

I don't believe that passive funds, quants, option writing, or ETFs are responsible for the Covid-19 virus. I do believe that the severity of the decline and the way markets have behaved is significantly influenced by their structure and their users' behaviours. The amount of money now run by "we-have-no-idea-what-this-company-does" passive and quant shops is at an all-time high.

My biggest concern over the past few years has been a policy error by the Fed. Every major sustained stock market sell-off and recession of my 25 year career started with Fed policy. But this time is different. As Deutsche Bank points out "Normally recessions are triggered by too big imbalances in the economy such as too much investment in housing (2008), IT (2001), or commercial real estate (1990). As a result, the duration of a recession normally depends on how long it takes to correct the imbalances causing the recession." This economic contraction is not driven by imbalances in the economy, but rather by an exogenous shock that literally came out of the blue. Sunday night the Federal Reserve unleashed unprecedented policy actions to support the economy which will likely be copied by global central banks.

I believe that as we begin to recover, there will be permanent changes that will affect our world including the ways we do business. Companies will be reassessing office space requirements, and retailers will assess the number of physical stores they need. Business travel urgency will be reassessed. I believe the move to the re-platforming of technology, the digital transformation of enterprises, cloud computing, cloud based video conferencing and collaboration, online retailing, marketing and internet banking trends will likely only accelerate after the economic shock has passed.

As this crisis wanes the investment opportunities won't be a function of quantitative signals, option writing or factors. Instead, there will be a once in a generation opportunity for those who can properly assess the long term fundamentals of a business.

A CFA isn't an MD and I'm not going to guess when or how this virus ends. So my most important message is to stay safe, listen to the medical experts and if you can, please look out for the vulnerable and less fortunate.

Please take care and be well.

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