

# 6 MERIDIAN

Market Update  
March 24, 2020



- What happened?
- Where are we currently?
- What to expect?
- What do we need?



# What happened?

- Expensive market priced for strong earnings growth
- COVID-19 virus
- Oil war
- Fears of insolvency



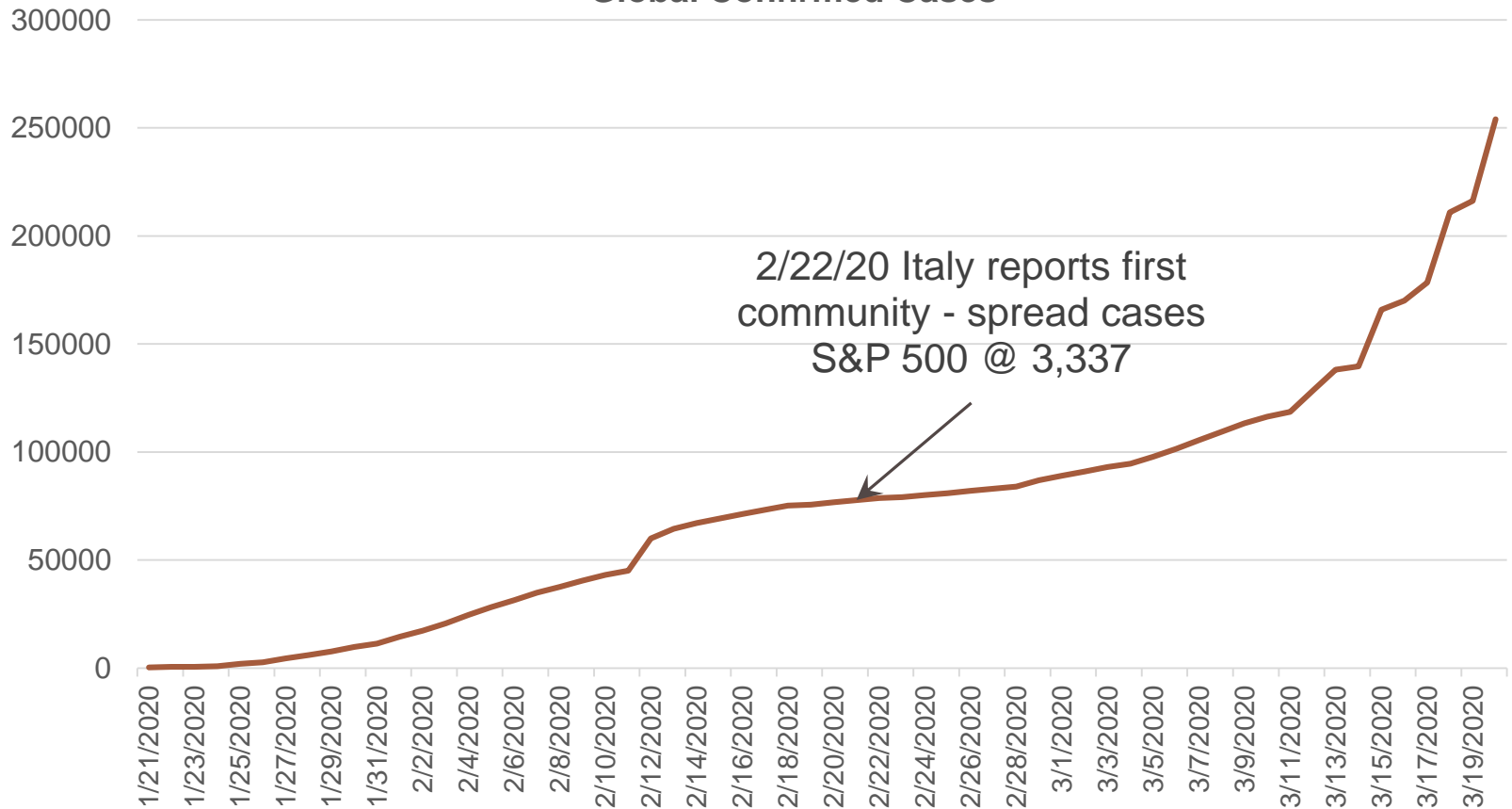
# Expensive Markets





# COVID-19

## Global Confirmed Cases





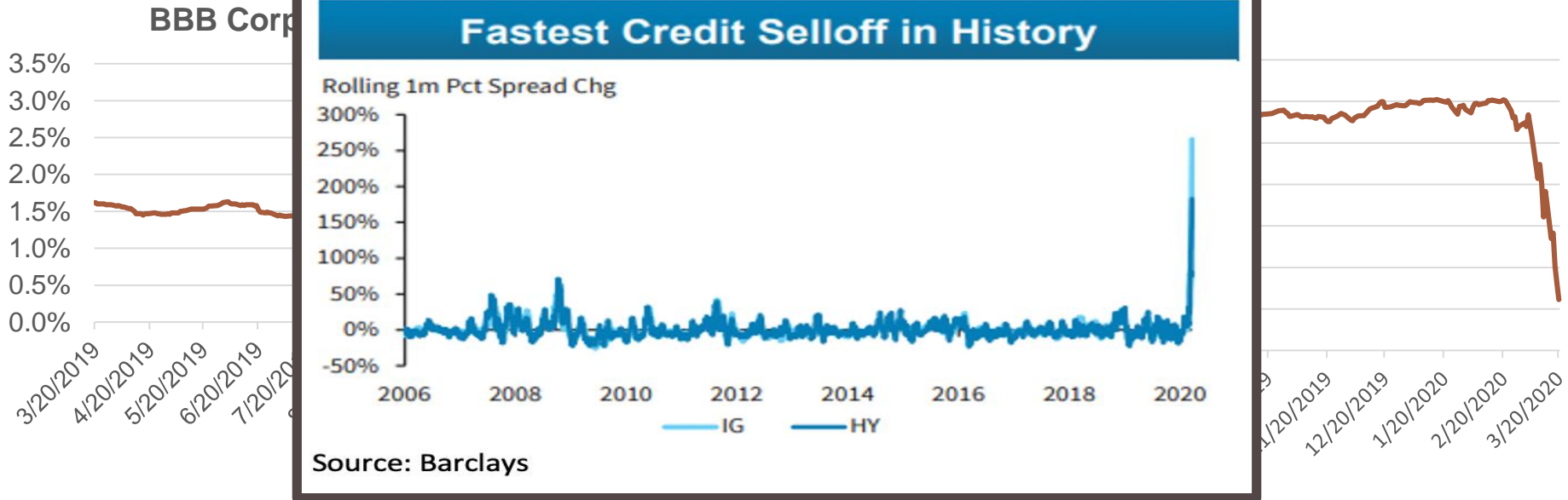
# Oil Price War

## Brent Crude Price





# Insolvency





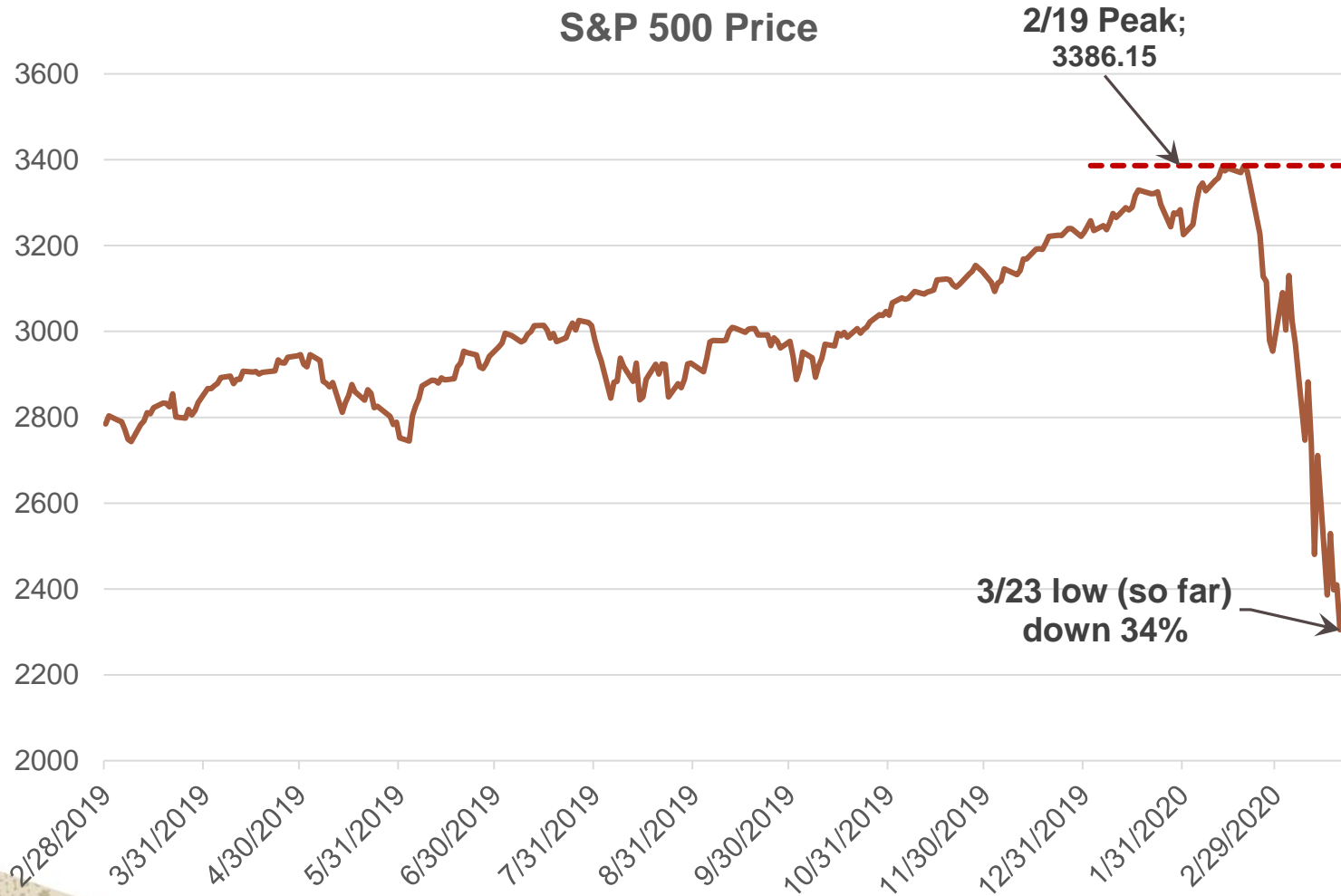
# Where are we?

- Bear market
- Fed action to address liquidity
- Congress working on fiscal stimulus to address economic fallout





# Bear Market





# The crash of 2020

## Prior Bear Markets





# Average, but not cheap

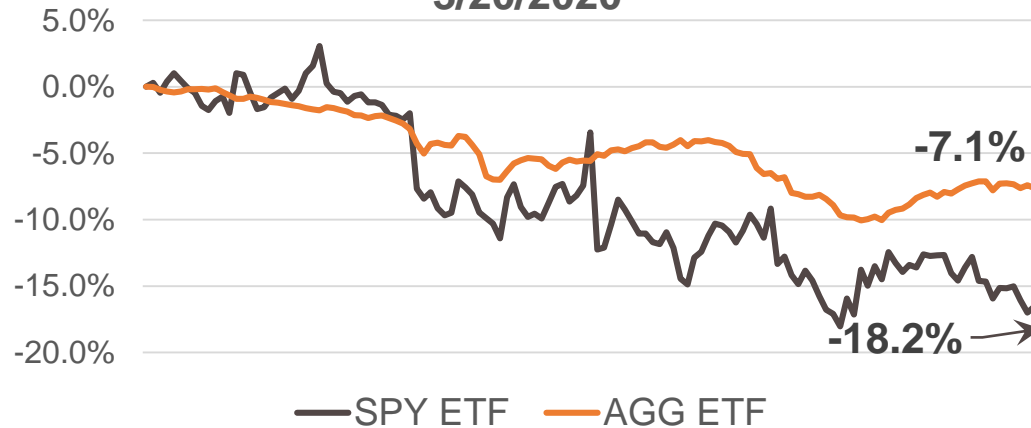
## S&P 500 Long-Term P/E





# No Safe Haven

Price Change - 3/9/2020 through 3/20/2020



	Month Ending	S&P 500 Return	Barclays Muni Index Return
Current	3/20/2020	-21.87%	-10.32%
1	10/30/1987	-21.54%	0.35%
2	10/31/2008	-16.80%	-1.02%
3	8/31/1998	-14.46%	1.55%
4	9/30/2002	-10.87%	2.19%
5	2/27/2009	-10.65%	0.53%



## *Fed has utilized full 2008 playbook*

- Fed funds to 0.0%-0.25%
- Unlimited QE (Quantitative Easing)
- Commercial paper support
- Investment grade and muni bond buying
- Central bank SWAP lines



## *Fiscal Policy Responses*

- Delayed tax filings
- Direct cash payments
- Enhance sick leave
- Business lending
- Response can be financed cheaply (for the time being)

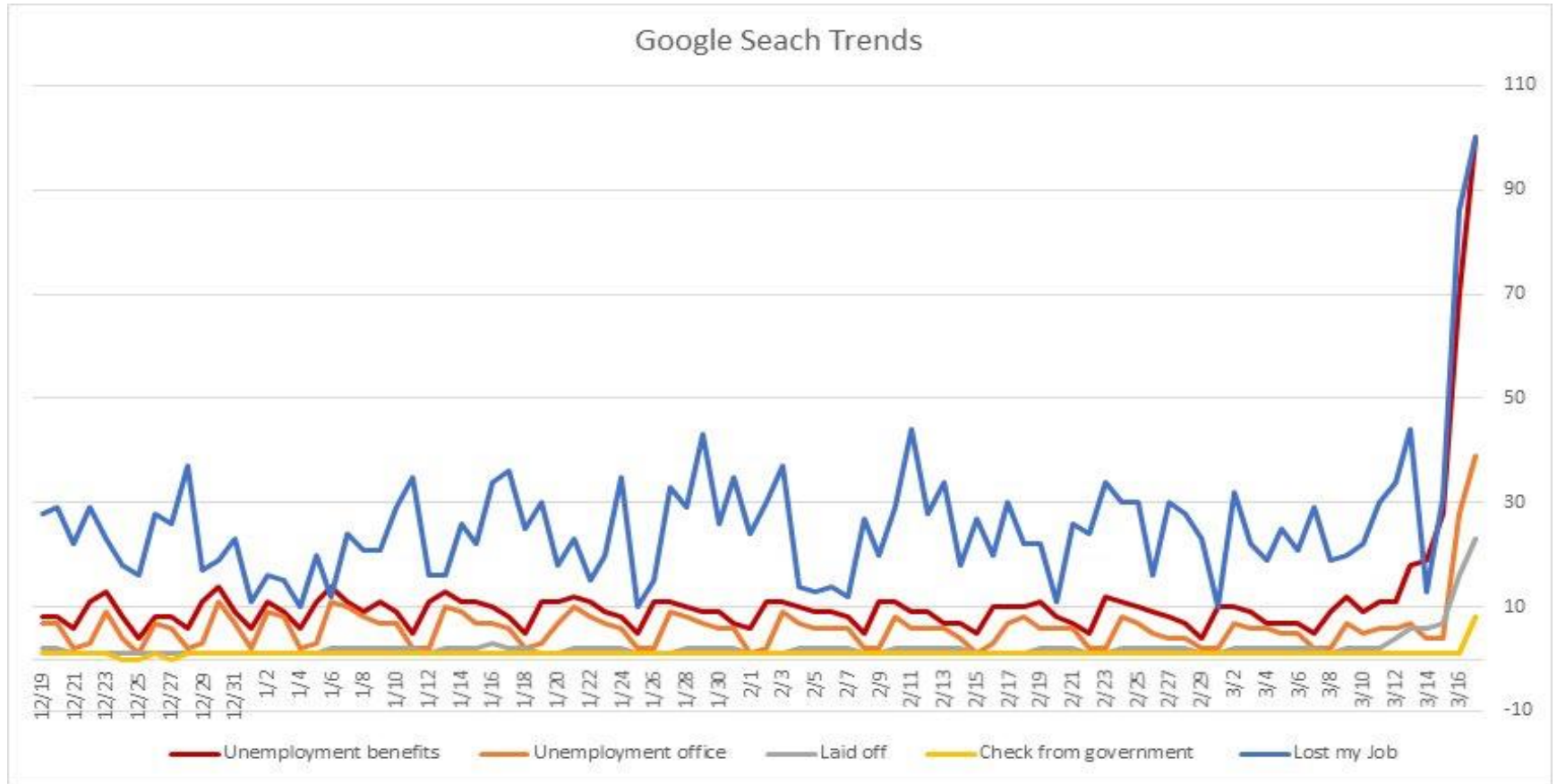


# What to expect?

- Recession
- Economic outlook: Short term and longer term
- History of bear markets



# Economic Outlook: Employment







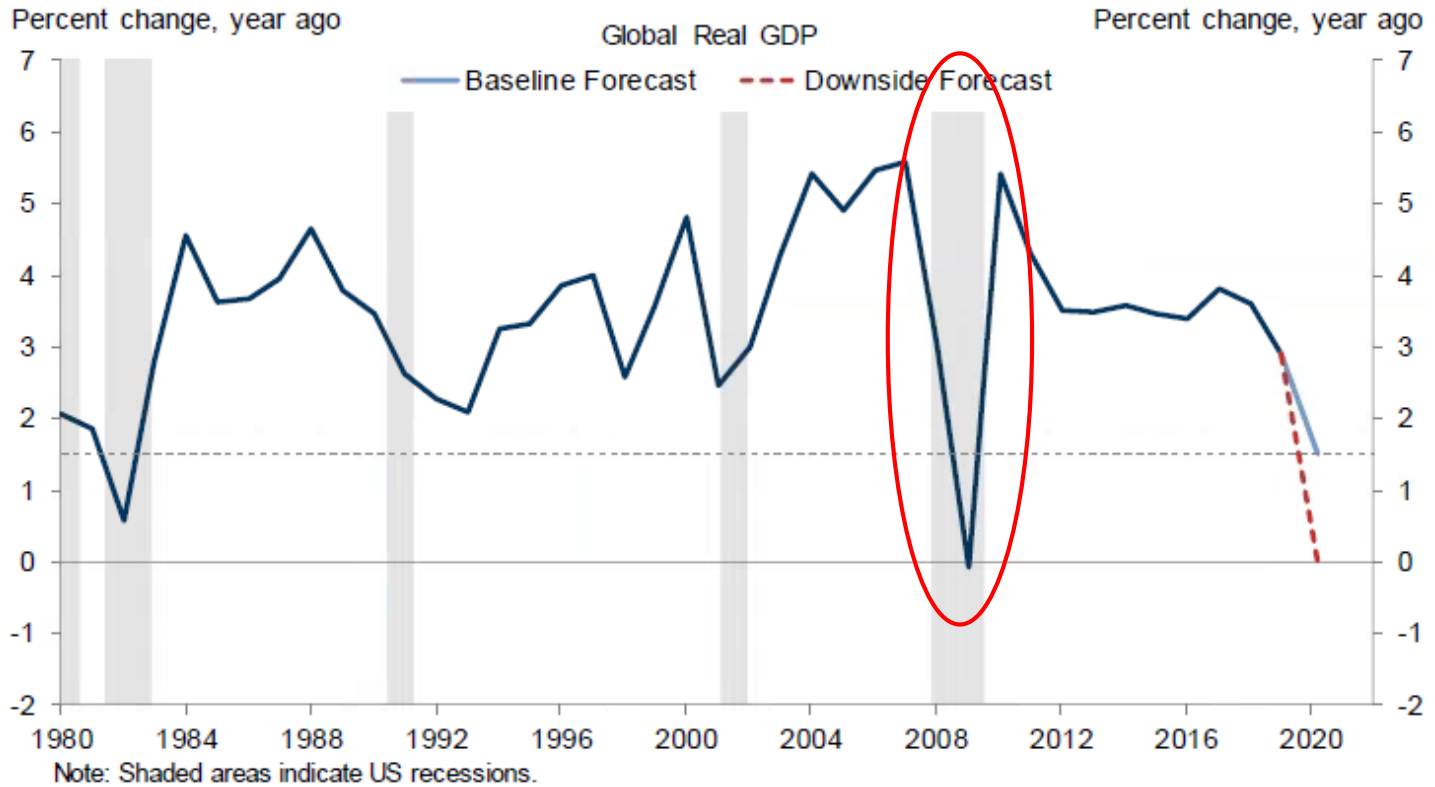
# Economic Outlook: GDP

## US GDP Forecasts

Bank	Q1	Q2
Morgan Stanley	-2.40%	-30.10%
Goldman Sachs	0.00%	-24.00%
J.P. Morgan	-4.00%	-14.00%
Credit Suisse	-1.50 %	-12.00%



# Economic Outlook: GDP



Source: IMF, Goldman Sachs Global Investment Research.



# History of Bear Markets

## Date of

## Price

Market Peak	Market Bottom	Length (days)
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Market Peak	Market Bottom	Decline
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2/19/20	???	???
10/9/07	3/5/09	513d
3/24/00	10/9/02	929d
8/25/87	12/4/87	101d
11/28/80	8/12/82	622d
1/11/73	10/3/74	630d
11/29/68	5/26/70	543d
12/12/61	6/26/62	196d
5/29/46	6/13/49	1111d

3,386	???	???
1,565	683	-56%
1,527	777	-49%
337	224	-34%
141	102	-27%
120	62	-48%
108	69	-36%
73	52	-28%
19	14	-30%

Median	583d
Average	581d

-35%
-39%

Source: Bloomberg / S&P 500



# What do we need?

- Stabilization of credit markets
- Easing of short-term trading volatility
- Health improvements
- Avoid unnecessary defaults and bankruptcies
- Long-term focus



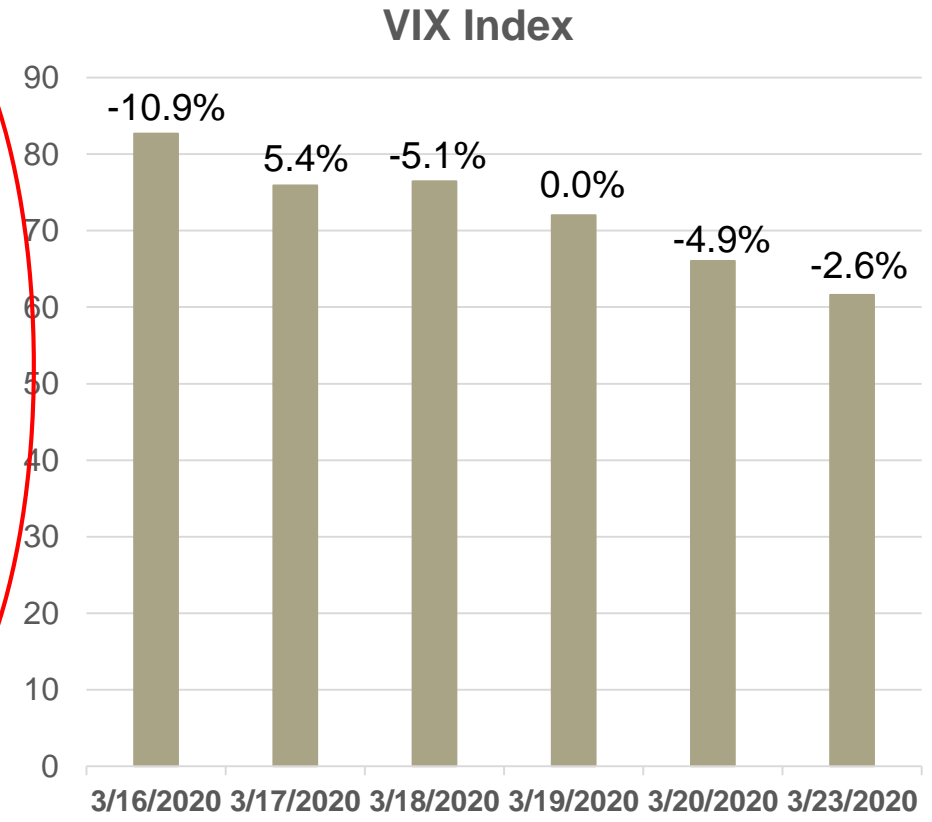
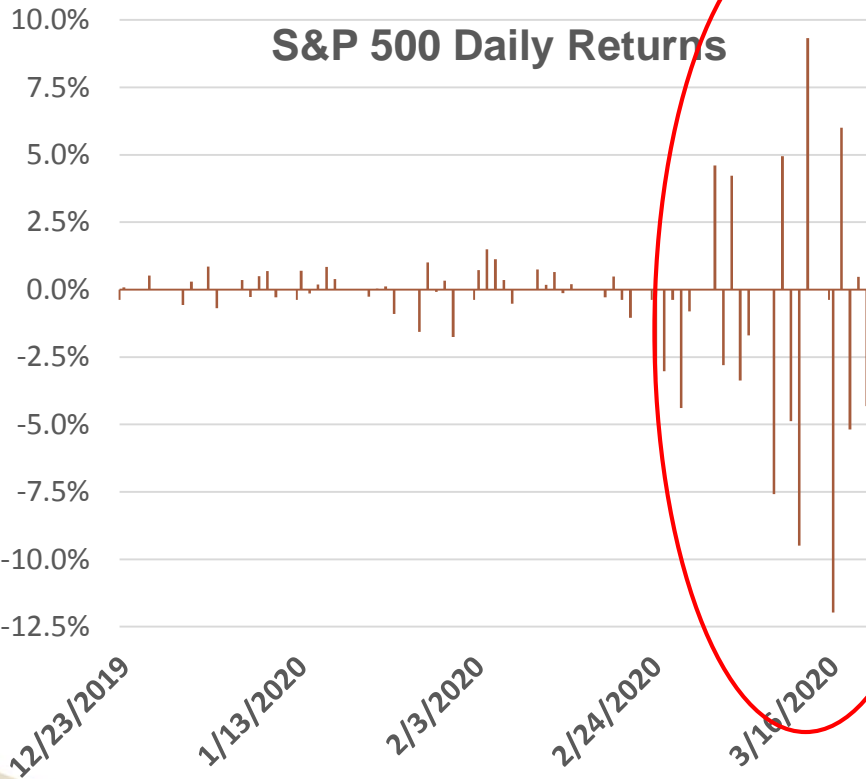
# Bond Markets

## MOVE Index – Treasury Rate Volatility





# Volatile Trading





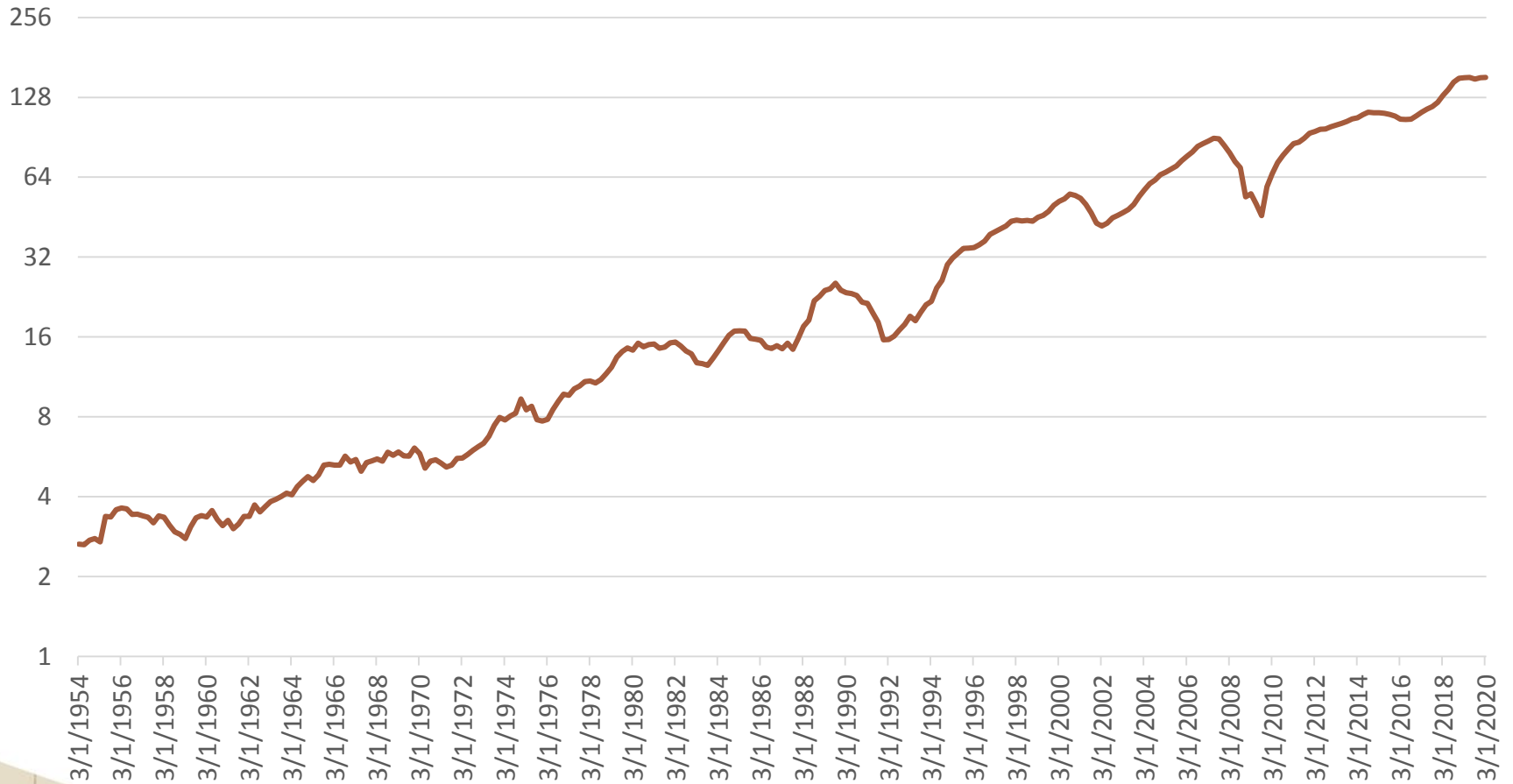
## *Health Improvements*

- Testing
- 2<sup>nd</sup> derivative improvements (% growth rate of new cases, daily deaths)
- Herd immunity
- Vaccine



# Long-term Earnings Power

## S&P 500 Earnings per Share (Log Scale)





## Summary



- Most rapid sell-off that hit nearly every asset class
- Most (but not all) damage already done
- Recovery will be measured in months, not days or weeks
- Seeing successful, smart investors adding money



Thank you for listening

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6 Meridian LLC

8301 E. 21<sup>st</sup> St. N, Ste. 150, Wichita, KS 67206

P: 316.776.4601

[www.6meridian.com](http://www.6meridian.com)

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