BROOKMONT
CAPITAL MANAGEMENT

It was going to be something

As we outlined in our 2020 outlook published in January the markets were priced to perfection with the S&P's PE average ratio at 19X. Performance expectations for 2020 were reliant on EPS growth aided by fiscal policy and firming global fundamentals post trade negotiations. This is not going to happen.

Our concern was any significant negative headline could cause short term volatility. At the time, global trade negotiations, turmoil in the Middle East coupled with other macro uncertainties primed the market for a fear induced drawdown. As such, we raised roughly 7% cash in late 2019 in anticipation of this market volatility. While no one could have predicted a global pandemic the market reactions were not surprising.

We believe that the current coronavirus induced volatility will represent a good reentry point.

The current risk of corona virus is that policy makers and business leaders overreact to the risk of a global pandemic leading to unnecessary economic slowdown that will be felt for months.

We are biding our time until the fallout of the virus becomes better understood and the fear can abate. We are evaluating the global cases being cured relative to new cases reported, at which point epidemiological models will be validated and economic downside better understood. This represents the signal we are monitoring as an opportunity to pick through the carnage. We anticipate that incidences of new cases will increase dramatically in the short term due in part to improvements in testing, which will ultimately help containment but will also result in more negative headlines.

While Covid-19 is top of mind, the volatility during the first week of March was largely driven by the prospects of Bernie Sanders enjoying a significant victory on Super Tuesday. Now that it seems the Democratic party is coalescing around centrist candidate Joe Biden; we expect the risk of significant regulatory and tax rollbacks coupled with massive federal spending to fade somewhat and a more serious race to commence between President Trump and former Vice President. As we said in our 2020 outlook, " the odds of Trump being reelected are elevated and will fall in the coming months before fluctuating with the competitive puts and takes of the general election. This will create opportunities throughout the year in sectors subject to policy uncertainty (Energy, Healthcare, Financials etc.) admittedly against what we believe will be steadily increasing geopolitical tension."

The portfolio is positioned well to weather this storm including overweight's in Healthcare and Staples. We are continuously monitoring existing holdings with an expectation of deploying cash reserves. Sectors that appear presently undervalued include Energy which we were overweight and Financials which we were underweight.

The Brookmont philosophy of investing in company's with strong balance sheets, disciplined management with well covered dividends represents an attractive allocation for strategic investors in the equity market. This coupled with sinking yields represents greater relative value to fixed income alternatives.

The team at Brookmont are happy to share additional thoughts on the markets and our portfolios.

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