



General Outlook

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Investment Environment

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Markets: Stormy C's

Equity markets initially added to last quarter's gains, driven by better than expected corporate earnings reports, easing trade tensions with China, and an improving global economic growth outlook. In late February, the longest running bull market in history abruptly changed course with the accelerated outbreak of COVID-19 in China that dominated global news coverage. Initially, investors feared disruption to global supply chains and modest lessening of worldwide demand from the lockdown measures mandated by Beijing. As the pandemic spread into Europe and the U.S., equities experienced a sharp reversal of fortune that resulted in the fastest 30% selloff in the S&P 500's history (22 days), even surpassing some of the precipitous stock declines witnessed during the Great Depression. Investors indiscriminately scrambled for safety and

lowered equity exposures as government officials issued stay at home directives worldwide, causing perilous clouds to form over the global economy.

Concurrent with the unprecedented China economic deterioration, spreading COVID-19 pandemic, and crashing stock prices, commodity prices (energy) plummeted, and credit spreads widened. Suddenly, investment decisions were largely driven by daily media briefings describing the evolution of the disease (new cases, hospitalizations, and ill-fated deaths), mitigation efforts to control its proliferation and "flatten the curve" (work/learn from home, self-quarantine, social distancing), and the ability to procure essential medical resources. Within this tornadic frenzy, growth stocks benefited from secular drivers and relative earnings stability to notably outperform their more cyclical value brethren across the market cap spectrum. Active managers registered better success rates relative to benchmark returns, as the unexpected substantial changes impacting global economies had different implications for individual companies that passive investing is less-suited to navigate. As a result, most of CCI's portfolios handsomely outperformed their respective benchmarks during the quarter.

Equity Markets (% Total Return)

First Quarter 2020

	Growth	Index	Value
Russell 1000	(14.10)	(20.22)	(26.73)
Russell Mid Cap	(20.04)	(27.07)	(31.71)
Russell 2500	(23.22)	(29.72)	(34.64)
Russell 2000	(25.76)	(30.61)	(35.66)
Russell Microcap	(26.59)	(31.99)	(36.09)
S&P 500		(19.60)	
International*		(22.72)	
Emerging Markets**		(23.57)	
Gold Price Change %		3.95	

* MSCI EAFE in U.S. \$ ** MSCI EMF in U.S. \$

Source: FactSet (Indices)/Bloomberg (Gold Price Change%)

Monetary Policy: Bazooka Jay

Like the cavalry in classical movies, the Federal Reserve ("Fed") temporarily rescued plunging markets with several liquidity initiatives. Initially, the Fed fired off bazooka rounds in the form of dramatic 50 and 100 basis point interest rate cuts executed in rapid succession (achieving zero bound at the lower end), accompanied by a \$700 billion (\$500 billion of U.S. Treasury securities and \$200 billion of mortgage-backed instruments) quantitative easing increase. Accompanying these measures, the Fed relaxed bank capital buffers and reserve requirements to facilitate lending capacity that could address the sudden credit crunch. This briefly quelled investor fears, but soon credit spreads widened on plummeting energy prices and escalating

economic concerns, prompting the Fed to reload its bazooka for another round of liquidity relief to stabilize money markets, commercial paper issuance and collateral-based lending by primary dealers. Liquidity facilities enacted during the Financial Crisis more than a decade ago were restarted and fortified with added firepower. The collective shock and awe response from the Fed was so substantial that it received accolades from the President (a notable critic of Fed action) for its decisiveness in rising to the unprecedented challenges facing the economy. Other global central banks implemented monetary policy actions to address developments within their respective regions, recognizing the black swan nature of this growing epidemic and the choke-hold it maintained on the downward spiraling global economy.

Fiscal Policy: Whatever It Takes

Not to be outdone, the Senate and House ventured onto the battlefield with their cannons loaded with stimulus proposals to address the domestic economy grinding to a halt from quarantine and stay at home mitigation efforts to control the pandemic's spread. Early resolutions were relatively small scale, with Phase 1 providing \$8 billion of emergency funding for early pandemic response and Phase 2 allocating over \$100 billion primarily for employee sick leave and enhanced unemployment insurance. The escalation of the outbreak prompted broader conversations across the Congressional aisle that quickly skyrocketed the amounts under consideration, resulting in a far larger cannon of relief in the form of a massive \$2 trillion economic package (nearly 10% of domestic GDP). This "whatever it takes" legislation eclipsed the combined responses taken in response to the Financial Crisis more than a decade ago, and was deliberated to provide significant relief to individuals, state and local governments, and small-large businesses most affected by the coronavirus. Historically, these packages stimulate the economy over periods of time, but the elements of this agreement were designed to first stabilize the plummeting economy and ballooning unemployment claims by providing interim relief until mitigation efforts stemmed the tide of new COVID-19 cases and illuminated some light at the end of the pandemic tunnel. Thereafter, Congress could negotiate a more traditional stimulus package intended to jumpstart the economy.

Economy: Homeward Bound

Just as the 2008-09 Financial Crisis response created an alphabet soup of acronyms (TARP, QE, etc.), the coordinated efforts to control the coronavirus spread have produced new phrases such as social distancing, stay at home, self-quarantine, and flatten the curve that have become commonplace during the pandemic. More than 75% of states (and an even greater portion of the U.S. population) are subject to full or partial stay at home directives issued by state and local government officials, causing the domestic economy to grind to a halt as non-essential activities were shuttered and social distancing took effect. The immediate result was a Q1 GDP that waded into contractionary territory and a Q2 GDP forecasted to bear the full brunt of the immobilized economy and signify a textbook definition of recession. The unprecedented nature of this outbreak had prognosticators tripping over themselves with pessimism to provide their best guesstimates of Q2 GDP during

the highest level of economic uncertainty since 2008-09. This moving target estimate stood at about -15% annualized as of quarter-end, with a wide-swathing range of flat to about -40%. Demonstrating the inaccuracy of forecasts during this intensified uncertainty, the monthly payroll report and initial unemployment claims released nearest to quarter-end missed consensus estimates by about 600% and 75%, respectively. There is no historical playbook or roadmap from which to draw firmer conclusions, and consumer spending, manufacturing activity and capital spending (combined 85%+ of economy) are highly dependent on the virus' progression. Unfortunately, this wreaks havoc on cyclical investors due to the numerous outcome scenarios and host of time frames under which the economic recovery may materialize.

Earnings: Guessing Game

As described above, the combined economic impact from COVID-19, monetary policy and fiscal relief is virtually impossible to predict, providing a weak foundation for analysts to formulate earnings estimates that are the basis for investment decisions. Johnson and Johnson's Chief Financial Officer had it right when he stated in a recent interview that he would be 100% precisely wrong when providing forward earnings guidance on the company's upcoming conference call. Quantitative and value-based investment models continue to base trading decisions on earnings forecasts that are as much a moving target as the economic projections mentioned in the prior section. As of quarter-end, forecasts for S&P 500 2020 earnings were approximately \$160 on a bottom-up basis, with prominent top-down strategists having estimates in the \$115 range. The widest disparities exist among the cyclical Industrials, Energy, Materials, Financials and Consumer Discretionary sectors. CCI's investment discipline is focused on secular growth companies with business models less sensitive to economic fluctuations that make them better able to achieve their corporate objectives independent of economic tailwinds that bolster more cyclical companies. While certainly not immune to the headwinds created by this massive pandemic, investors typically gravitate to the relative predictability and higher visibility of these quality growth names. The CCI portfolios across the board have taken advantage of the recent market dislocations to exit holdings where the underlying investment thesis was suddenly undermined or future surprise potential became compromised with the magnified level of uncertainty. These funds were redeployed into higher conviction ideas selling at unexpected discounts despite their relatively strong fundamentals.

Outlook: Curve Flattening

The market's extreme volatility, economic degradation and explosion of new information provided an environment that facilitated greater relative success for more than 60% of growth managers who surpassed their benchmarks. Coronavirus updates, monetary/fiscal policy changes, social distancing, and other economic dislocations have varying company-specific implications that active managers are better suited to address in a timelier manner. Investors have already begun contemplating the longer-term ramifications of this pandemic, including societal changes, business operations, globalization, and government involvement. Working from home, supply chain

locations, online/physical retail shopping, consumer/business travel, urbanization, remote learning, and healthcare system resources merely scratch the surface in terms of areas under consideration for potential lasting change when this pandemic ends. Hockey Hall of Famer Wayne Gretzky had a philosophy of skating to where the puck is going, helping to make him the most prolific scorer in his sport's history. Similarly, active managers who position portfolios for where this evolution is headed are more likely to achieve sustained success over time than those reacting to each data point.

A central tenet of CCI's investment process is an intense focus on key fundamental leading indicators that drive future company results. For investors, the pace of new COVID-19 cases is the key leading indicator to measure whether mitigation efforts have stemmed the pandemic's spread, effectively flattening the curve and providing some light at the tunnel's end. The shape of an ensuing recovery is impossible to predict, so CCI remains committed to a strict adherence to our investment discipline which seeks out secular growth companies with greater fundamental visibility, attributes that investors historically gravitate towards during periods of uncertainty. We are carefully monitoring the investment landscape for changes to the environment, and will implement tactical changes as the situation warrants.