

## US Strategy Snapshot

### Avoid the Temptation to “Make the Call”

The correlation between stock market volatility and the proclivity of declaring dramatic investment forecasts has certainly skyrocketed, judging by our client interactions, not to mention the overwhelming fear that most of these forecasts are generating on a nearly hourly basis. The collateral economic, fundamental and psychological damage that the crisis has caused is undeniable. While the duration and depth remain in question, so, too, is the fortitude of the eventual recovery. Yes, this too shall pass – and yes, stocks and the economy will rebound. So why are so many forecasts ONLY focusing on the negative? Our work shows that there is almost NO relationship between EPS growth and market performance for holding periods out to 20 years. In addition, history shows that S&P 500 returns have been predominantly POSITIVE during years of negative EPS growth, many of which were double-digit gains. Furthermore, the academic relationship between GDP and stock market performance has always had a lag – and therefore is NOT dependable. So why the dire earnings and GDP headlines? We believe most of these dramatic headlines were driven by the reaction of stock market weakness, the “need to make the call,” and the fear of not wanting to be wrong. Again, these forecasts may end up being bang-on after all. The reality is that no one knows for sure how long the crisis will last. The stock market will be the ultimate judge, but many of these dire forecasts and the fear associated with them feel more and more every day that the verdict is already guilty until proven innocent.

We have been receiving a lot of questions on our sector positioning and themes in lieu of our recent changes, let alone the pullback in the market. Please see the following table and our [US Strategy Portfolios](#) for actual positions.

#### Sector One Liners:

Sector	Opinion	Tgt. Wgt.	Theme
Communication Svcs	OW	12.5%	Broadband (need it to work from home), content, and yield
Consumer Discret.	OW	10.5%	Online shopping is safe and so, too, is casual wear as we work at home
Consumer Staples	UW	6%	Essential goods and services remain open and shelves are being stocked
Energy	MW	3%	Focus on yield and cash flow only
Financials	MW	11.5%	Multi-divisional; biggest of the big are best positioned
Health Care	MW	14%	Biotech, pharma, medical devices are more important than ever
Industrials	MW	8.5%	Will benefit from a cyclical recovery, but stick with high quality
Information Tech	OW	25.5%	Consumer-driven cash flow and innovators
Materials	MW	2.5%	Hard to own the metals here; stay diversified
Real Estate	OW	4%	Yield and cash flow
Utilities	UW	2%	Yield and stability of dividend

Please click on the report link below for additional analysis and commentary:

[US Strategy Comment: Our Conviction Is Resolute, Template Notwithstanding](#)

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#### Major US Indices Price % Performance

Sector	1M	YTD	6M	12M
DJ Industrial Average	-31.9	-30.3	-26.7	-23.2
DJ Transportation	-35.8	-36.0	-34.1	-33.1
DJ Utilities	-23.3	-16.1	-13.9	-5.1
NASDAQ 100	-25.5	-17.8	-9.0	-2.1
NASDAQ Composite	-28.2	-22.1	-14.5	-9.4
Russell 1000	-30.1	-26.9	-21.5	-16.9
Russell 1000 Growth	-27.6	-21.6	-14.6	-8.0
Russell 1000 Value	-32.9	-32.5	-28.6	-25.8
Russell 2000	-41.1	-40.6	-36.8	-36.6
S&P 500	-28.8	-25.8	-20.2	-15.3
S&P 500 Growth	-27.3	-21.5	-16.3	-10.7
S&P 500 Value	-30.7	-30.6	-24.8	-20.6
S&P Mid Cap 400	-39.8	-39.0	-35.6	-34.1
S&P Small Cap 600	-40.7	-41.2	-38.1	-37.1

Source: BMO Capital Markets Investment Strategy, FactSet. Performance figures reflect close prices as of 3/18/20

#### S&P 500 GICS Sector Price % Performance

Sector	1M	YTD	6M	12M
Communications Services	-25.8	-21.5	-16.7	-9.3
Consumer Discretionary	-32.2	-28.3	-26.5	-20.0
Consumer Staples	-14.1	-12.1	-8.3	0.0
Energy	-55.7	-60.6	-60.3	-63.4
Financials	-38.2	-38.2	-33.0	-29.3
Health Care	-19.2	-18.1	-7.7	-8.5
Industrials	-36.1	-34.1	-31.8	-28.1
Information Technology	-27.3	-19.6	-9.0	0.6
Materials	-32.0	-33.2	-29.6	-25.9
Real Estate	-30.5	-25.1	-25.9	-17.8
Utilities	-22.8	-15.6	-13.9	-5.8

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Hold	Market Perform	52.0 %	18.0 %	43.1 %	50.8 %	44.0 %	37.5%
Sell	Underperform	3.7 %	15.0 %	2.6 %	3.1 %	1.1 %	4.8%

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~ As of April 1, 2019.

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