



THE DANA VIEWPOINT

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Strange Days Indeed

We can't help but continue to hear the lyrics of the Lennon song – Nobody Told Me – running through our heads. Virtually every day brings a new twist in the virus story. Some areas of the country are showing declines in growth rates of virus cases, some areas have yet to show any spike. We don't know when the first cases appeared in the U.S. because we weren't looking for them and we did not know how to identify mild cases and differentiate them from other flu strains. The lack of scale in timely testing has continued to hinder our understanding of the disease and its progression through the population. There are still unanswered questions about the communicability of the disease, morbidity, acquired immunity, period of infectiousness, and mutation. We also have no clear view of how the disease progresses within the body or what countermeasures are most effective. Even the efficacy of ventilators has been questioned.

This period of time has been unique even for investment managers, who are accustomed to making decisions under conditions of uncertainty. We are now entering a period where we hope the growth in identified cases will continue to decrease, even as economic activity and personal interactions increase as restrictions are eased. Can we slowly reopen closed businesses and institutions and expect a return to the status quo? Most certainly not. Some individuals will return to their prior routines, but many will change their behavior, some for a long time. How will this affect travel, business, consumption, investment? We have to try to decipher and anticipate new trends.

If the markets can be viewed as somewhat efficient and forward looking, maybe we can expect a return to a greater level of normalcy fairly quickly. The S&P 500 has recovered more than half of its decline from its February peak, and many growth indexes have recovered most of their declines for the year. Eight states never issued stay at home orders. A handful will relax restrictions in the last week of April, and more will relax recommended restrictions on activity in early May. The fiscal and monetary measures that were undertaken to address the Covid-19 problem were larger and implemented far more quickly than any in history. Even with relaxed restrictions, the elderly and those with health problems will still have to be extremely careful in how they interact and the precautions that they take. Our post-virus world will be different than our pre-virus world. Travel and hospitality industries will be significantly changed.

Our investment teams have been following the evolving virus situation in China since January and began making changes in the portfolios in early February. Exposure to leisure, hospitality, and travel

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industries was reduced or eliminated. Technology and consumer companies that bore a lower degree of negative exposure under the new stay at home economy were added. Healthcare companies that would play a role in addressing the virus were added, and more defensive, less cyclical companies were added in the industrial sector. Because these changes needed to be made to address the new reality, you will see a greater amount of trading in our equity portfolios than is typical. Strength of balance sheets became a top priority. Companies that can succeed regardless of the new uncertainties were added.

In the fixed income portfolios, the foresight to limit trading in a stressed environment helped us weather the storm. Far less trading was done, but prudent changes were made. The large reduction in Treasury and money market yields due to significant cuts by the Federal Reserve increased the relative yield advantage of the Limited Volatility strategy. In the middle of March, when fear and uncertainty were reaching their peak, many fixed income securities moved down 5% or more, and the typical market makers stepped away or made markets that drove the cost of liquidity up to hundreds of basis points. Like equity markets, most fixed income markets have recovered more than half of their declines and with rates likely to stay low, have room to generate continued total return gains as the economy heals.

As we move forward, a large degree of economic and financial uncertainty continues to exist. We have actively managed all of our portfolios in light of new information as it evolves, and we will continue to look for opportunities to improve the portfolios going forward as conditions change. We appreciate your patience through this stressful time. Feel free to reach out to us if we can help by sharing any information or insights, and continue to practice habits that will keep you and your families as safe as possible.

Random thought: Nothing happens quite by chance. It's a question of accretion of information and experience. - Jonas Salk

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