



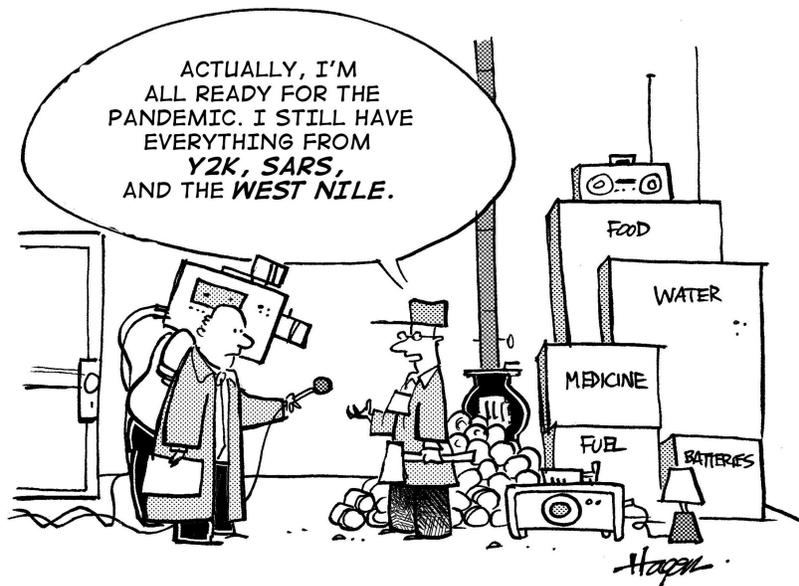
**PACIFICUS**  
CAPITAL MANAGEMENT

INVESTMENT OUTLOOK – APRIL 2020

## My Money is on Humanity

*I do not think that there is any other quality so essential to success of any kind as the quality of perseverance. It overcomes almost everything, even nature.*

- John D. Rockefeller



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Back in 2005, I was living in NYC and working as a proprietary trader, on the macro and relative value trading desk at Mizuho. My job at that time was to manage a portfolio of G7 interest rate products, which generally included taking large, leveraged positions in government bonds, interest rate swaps, options and futures.

For almost two years I struggled to make money, as the market was focused on a narrative of China exporting inflation to developed economies (something I never quite understood), along with the unstoppable booming housing sector. I disagreed strongly with the risk seeking inflationary consensus at the time, and consequently had my trading book positioned for a bad outcome, which had yet to materialize.

By early 2007 Mizuho let me go, however I was quickly picked-up by ABN Amro, which later became a part of the Royal Bank of Scotland (RBS) and joined their primary dealership trading desk. Shortly after moving firms my bets paid-off, although by a

relatively modest amount when judged by institutional Wall Street standards. At the time, it felt good to be intellectually, emotionally, and of course monetarily vindicated. Nevertheless, I understood there was no glory in the pain being felt across large swaths of society as a result of the asset bust, which immediately triggered the Global Financial Crisis.

I started my career in the late 90's, on the mortgage-backed securities trading desk of a regional broker dealer. As a junior trader, I witnessed the insatiable appetite insurers, pensions, and mutual funds had for risky debt instruments, such as high loan to value home equity loans. Wall Street was getting rich off the demand for structured securitized products, while insurers and pensions desperately yearned for the extra yield required to make good on their pie in the sky promises. Households were taking risks far beyond their ability to repay, which for many seemed fine as long as the music kept playing. This never felt right to me on many levels, and so when the market collapsed seven years later and a deep recession followed, I felt there was lots of blame to go around.

Today, this is not the case. The Covid-19 virus is a humanitarian crisis which is not the result of irresponsible risk taking or an asset boom. Nevertheless, this has many supposed free-market commentators complaining over social media that the Fed should allow everything to burn down. Why, so they can tell everyone, "I told you so"? This makes absolutely no sense to me. Governments across the world mandated their economies shut down (not a free market action) to prevent this pandemic from spreading completely out of control. We complied, stayed home, and the lights were flicked off on the economic engine.

The Fed, which has the ability to act swiftly through the financial system did the proper thing by dusting off the playbook from the Global Financial Crises. Had it not, people could easily be on the streets rioting at this moment. As Fed Chair Powell recently stated, *"Our **emergency** measures are reserved for truly rare circumstances, such as those we face today. When the economy is well on its way back to recovery, and private markets and institutions are once again able to perform their vital functions of channeling credit and supporting economic growth, we will put the **emergency** tools away."*

Largely as a result of the Fed and U.S. government actions, credit markets have stabilized while stocks have rallied well off their lows. This is good news but does not resolve the underlying uncertainty of the virus. The next step from leadership will be to come up with a plan of attack on dealing with Covid-19 post quarantine. I am optimistic the world will be back to normal sooner than the doomsayers believe, but understand we are in for a bumpy ride. In the meantime, we mustn't forget to always be kind and respectful toward others, as we are all in this together.

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On financial markets, I am much more positive than negative. I am positive because prices/values are still considerably lower than where they were going into the crises and are now supported by unprecedented Fed/Treasury monetary support, near zero interest rates, cheap financing, as well as a \$2 trillion fiscal stimulus package from the US government. I am positive because both the financial markets and the economy were humming along at a steady pace before this unforeseen, black swan event hit us. I am positive because although it is likely we have entered a technical recession, markets are always forward looking and will begin to discount a future beyond Covid-19. I am positive because the sharpest minds in the world are laser focused on a solution to our shared crises. **But ultimately, I am positive because I believe in The System.** I believe that we as Americans will rise to the challenge, get through this and come out stronger. Others will bet against America. Fine, let them. I on the other hand, know our history and will not. Let's see where things are by year-end. My money is on humanity. My money is on America.

ASSET CLASS & SECTOR OPINIONS		
OVERWEIGHT	NEUTRAL	UNDERWEIGHT
U.S. Real Estate Equities	Materials Sector	International Developed Market Equities
Large Capitalization Technology	Communication Services Sector	Financial Services Sector
Consumer Discretionary Sector	Healthcare Biotech & Pharmaceuticals	Leverage Loans (Floating Rate Debt)
Healthcare Equipment	Consumer Staples	Treasury Inflation Protection Securities
Aerospace & Defense	Mortgage Backed Securities	Energy Related Equities
Investment Grade Corporate Bonds	U.S. Treasury Notes & Bonds	
Gold	Local Currency EMG Bonds	
	High Yield Corporate Bonds	
	Emerging Markets Equities	

Sincerely,  
 Justin Kobe, CFA  
 Founder, Portfolio Manager & Adviser  
 Pacificus Capital Management



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