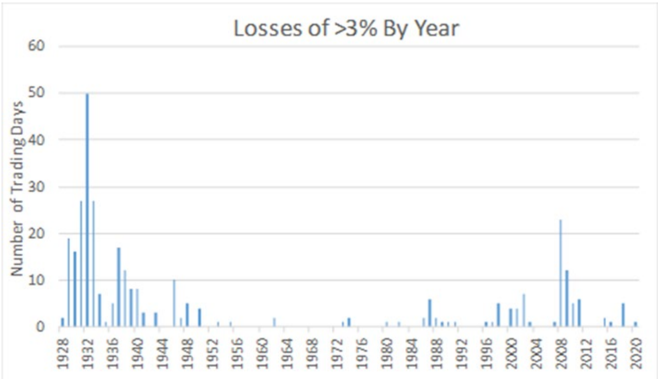
BLOG POST
Analyst Corner
Part 1
3/16/2020

Macro View – Drawdown Dialogue

February provided a wakeup call for investors with two consecutive days of over a 3% drop in the Dow and the S&P 500. According to Seeking Alpha, approximately 99% of trading days are above a -3% return dating back to 1928. In a standard normal curve, this type of correction occurs about 3 times per year. The chart below shows that sharp drawdowns occur more frequently during economic contraction. The chart also shows that downward trending momentum can persist in periods of economic weakness. It is notable that periods of low volatility can persist — for example, from 1951 to 1972. 2012-2014, 2017, and 2019 did not see a single trading day fall below 3% (Seeking Alpha). One could conclude that the drawdowns could be one of the canaries in the coal mine warning of future recession and correction.



Taking Stock – Safe Haven

In February, the PCM Dynamic Risk Hedged US Growth Strategy over weighted low volatility companies versus other factors. The chart below shows the YTD performance of low volatility companies reflected through the Invesco ETF, SPLV, versus the S&P 500 ETF, SPY. As of February 24, 2020, SPLV is up just under 6%, while SPY is up just under 4%. Over 60% of SPLV is made up of financials, real estate, and utilities, followed by consumer staples companies and industrials. Not surprising that utilities and consumer staples are often heralded as defensive sectors. From February 14 through February 21, 2020, SPLV added $1.21 billion in assets, more than any other ETF for the same time period (ETF.com). The SEC 30 Day Yield is 2.32% (Invesco) offering the benefit of cash flow and income.

YTD Return (%) SPY (Blue) vs SPLV (Gray)