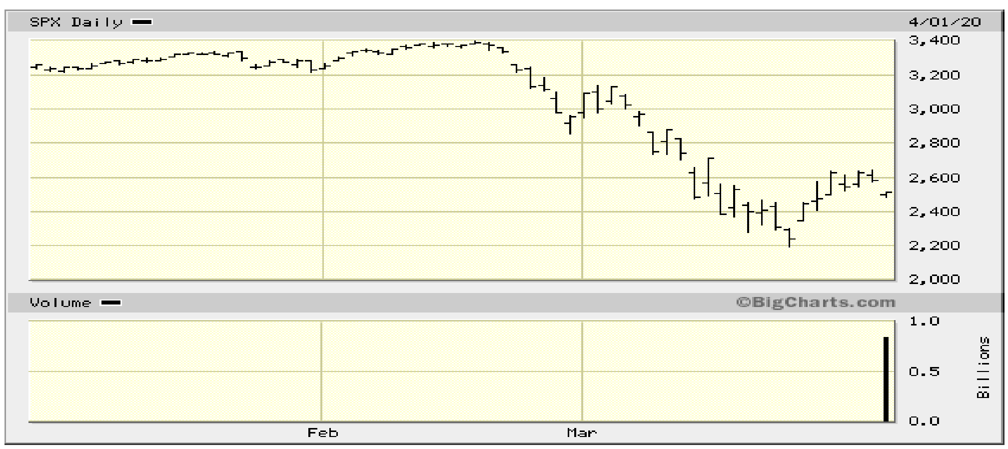
MRP CAPITAL INVESTMENTS, LLC

1st Quarter 2020 Client Newsletter

Capital Market Update

Inside this report:

In the blink of an eye the market went from an incredible 2019 that ended with a great 4th quarter to one of the worst quarters in the history of the market. In fact from it's peak to its trough this quarter, the market fell over 35% and, according to the Standard and Poor's website, the S&P 500 fell 20% for the entire quarter.



S&P 500 2019 Chart Supplied by BigCharts.com

As we discussed in the last newsletter, we were of the mindset that 2020 would be a volatile year given that it is a Presidential election year. However, the timing of the volatility was pulled forward due to the outbreak of the Coronavirus. And the severity of it was ramped way up because of the speed at which the pandemic spread across the world.

Moving forward everyone is awaiting to see the economic impact of the world's response to the virus, which was, essentially, to shut most economic activity down. Everyone knows that the data will be bad, we just don't know how bad it will be. And there is no question with a 35% peak to trough drawdown, the market is pricing in some awful data.

About the time everyone gets this newsletter, the data should be rolling in and we will have some good data to work with. Generally, with little data to work with, the market prices in extreme scenarios. We will see if this is the case this time.

Coronavirus

At the end of last quarter, no one was talking about the coronavirus. And now, that is all people can think about. It seemingly came out of nowhere and shocked the markets.

What is fascinating is that the virus itself appears to be highly contagious, but not incredibly deadly to healthy people. In fact, here is some general demographic data and some data relative to the coronavirus.

First, let's breakdown some global demographic figures. The population of the world is 7.8 billion and approximately 325 million of those people live in the United States.

On top of that, the mortality rate across the globe is 7.7 per 1,000 or 0.77%. Meaning that on any given day, for any number of reasons, 0.77% of the people in the world will die from a variety of causes.

With that as a backdrop, let's look at specific coronavirus statistics:

As of April 2nd, there were 965,134 cases of coronavirus detected globally. Of those 965,134 people infected, 49,247 have passed away and 203,308 have recovered from the virus.

In the United States, there have been 217,188 cases, 5,145 have died, and 8,937 have recovered, while 203,106 are still being treated.

Running those numbers yields a mortality rate of 5.1% globally and 2.3% in the United States.

To take these numbers to the next level, let's look at ages and mortality rates:

Ages 0-9 shows no fatalities.

10-39 shows a 0.2% mortality rate.

40-49 shows a 0.4% mortality rate.

50-59 shows a 1.3% mortality rate.

60-69 shows a 3.6% mortality rate.

70-79 shows an 8% mortality rate.

80+ shows a 14.8% mortality rate.

An interesting take away from a Centers for Disease Control report was that U.S. citizens over 85 have a mortality rate of 13.5% without exposure to the virus. So, having the virus adds 1.3% to the mortality rate of this demographic.

For additional insight, the chart below shows a breakdown of the mortality rates if you have a pre-existing condition versus the mortality rate if you don't have a pre-existing condition.

PRE-EXISTING CONDITION	DEATH RATE confirmed cases	DEATH RATE all cases
Cardiovascular disease	**13.2%**	**10.5%**
Diabetes	**9.2%**	**7.3%**
Chronic respiratory disease	**8.0%**	**6.3%**
Hypertension	**8.4%**	**6.0%**
Cancer	**7.6%**	**5.6%**
no pre-existing conditions		**0.9%**

Data provided by Worldometer

The chart is pretty self-explanatory. If you are sick and get the coronavirus, it is much worse than if you are healthy. But if you are healthy and get it, it doesn't appear to be that deadly.

Given the data I have just laid out, it does appear that this virus is spreading across the globe rapidly. Reports show that it started in Wuhan, China and on January 23rd, that city went into lockdown in an attempt to contain the virus and its spread. Furthermore, it appears that the Chinese under-estimated the spread of the virus. According to The Washington Post, 86% of all COVID-19 infections were undetected in China due to lack adequate testing. Which means that 6 times more people had the virus than the World expected.

This under-reporting appears to have left the World under-prepared for the global impact and speed of this virus. After the virus spread out of China, its epicenter has moved to Italy, to Iran, to Spain, and now appears to be centered on the United States.

Given this, it appears that the healthcare organizations of the World are focused on testing as many people as possible and, of course, finding a treatment and vaccine. Again, it doesn't appear to be the deadliest of all the pandemics the world has dealt with. In fact, below is a table that outlines past major viruses and global health care pandemics.

Name	Time period	Type / Pre-human host	Death toll
Antonine Plague	165-180	Believed to be either smallpox or measles	5M
Japanese smallpox	735-737	Variola major virus	1M
Plague of Justinian	541-542	Yersinia pestis bacteria / Rats, fleas	30-50M
Black Death	1347-1351	Yersinia pestis bacteria / Rats, fleas	200M
New World Smallpox	1520 – onwards	Variola major virus	56M
Great Plague of London	1665	Yersinia pestis bacteria / Rats, fleas	100,000
Italian plague	1629-1631	Yersinia pestis bacteria / Rats, fleas	1M
Cholera Pandemics	1817-1923	V. cholerae bacteria	1M+
Third Plague	1885	Yersinia pestis bacteria / Rats, fleas	12M (China and India)
Yellow Fever	Late 1800s	Virus / Mosquitoes	100,000-150,000 (U.S.)
Russian Flu	1889-1890	Believed to be H2N2 (avian origin)	1M
Spanish Flu	1918-1919	H1N1 virus / Pigs	40-50M
Asian Flu	1957-1958	H2N2 virus	1.1M
Hong Kong Flu	1968-1970	H3N2 virus	1M
HIV/AIDS	1981-present	Virus / Chimpanzees	25-35M
Swine Flu	2009-2010	H1N1 virus / Pigs	200,000
SARS	2002-2003	Coronavirus / Bats, Civets	770
Ebola	2014-2016	Ebolavirus / Wild animals	11,000
MERS	2015-Present	Coronavirus / Bats, camels	850
COVID-19	2019-Present	Coronavirus – Unknown (possibly pangolins)	45,500*

*(Johns Hopkins University estimate as of 12pm PT, Apr 01, 2020)

The Response

If you look at all that data in the previous article, it makes you scratch your head as to why the markets would have reacted in such a violently negative way to the coronavirus. But I am not really so sure that the market reacted to the virus negatively or they, in fact, reacted to the global response to the virus.

We know the virus started in China and it appears they under-estimated the impact and contagious impact of it. Therefore, the rest of the world wasn't fully prepared as the virus spread. And spread it did. It swept through Iran, Italy, Spain, and is now front and center in the United States. It appears as I am typing this, its epicenter is New York City.

One of the first moves made by the United States in response to the spread of corona was for the Fed to take very aggressive action. Interest rates were slashed, lending programs were backstopped where necessary, new ones were instituted as needed, and guarantees were put in place to ensure the financial markets would operate "normally." In our opinion, this was an incredibly important maneuver. Financial market stability is vital in the midst of a global pandemic.

The move that is a bit controversial is the shuttering of the economy. In fact, on January 31st the Trump Administration barred all flights from China. And before the quarter was over, sporting events were cancelled in the United States, restaurants were closed, and all "non-essential" businesses were shuttered in an effort to slow the spread of the virus. This, of course, prompted the markets around the world to crater as this foretold of an incredible drop in GDP and massive amounts of layoffs.

And, as we all could have predicted, the government came out with massive amounts of fiscal stimulus on top of the monetary stimulus that the Fed put in place. And, frankly, this is where many free market advocates take issue with the ‘powers that be” and their prescription for success. I think you can say this divide may have started way back in the 1930s as we recovered from The Great Depression. And the prescription is akin to Keynesian economic policies in a time of crisis, which equates to massive government spending to get through the crisis to make up for the drop in the spending in the private sector. However, one big issue with this plan is that we haven’t seemed to figure out how to get out of this habit of spending money we don’t have. Instead, we just print more money and keep interest rates low. But that is not a U.S.-centric theme, it is a global phenomena.

Nevertheless, as the economy was shut down, the markets fell. And not just the S&P 500 and not just stocks. Seemingly every market fell. Below are some charts and prices for different asset classes from 01/01/2020 to 03/31/2020.

The National Municipal Bond ETF (MUB) showed about a 15% peak to trough drop as investors worried about the States and Local Municipalities ability to service their bonds. The Fed’s actions of backstopping the muni markets helped worries surrounding this asset class subside.

The Investment Grade Corporate Bond Index fell about 22% peak to trough as the worries of corporate defaults mounted. Again, the Fed's actions of buying corporate bonds put a halt to the relentless selling and the market began to stabilize.

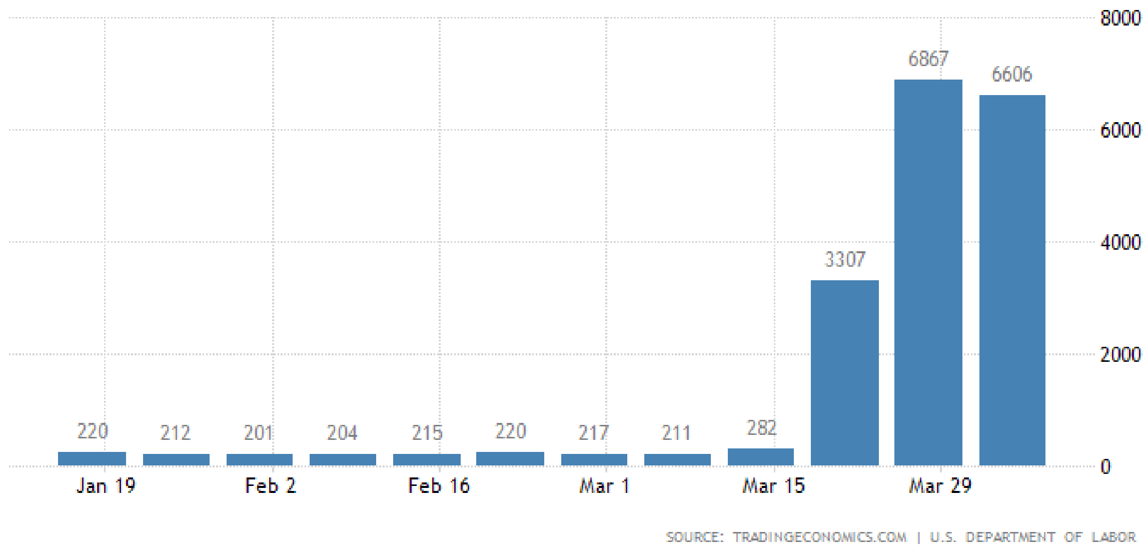
The Gold ETF even fell 14.3% from its high as, for some reason, gold sold off. Gold is traditionally as safe haven during times of trouble, but the fear was so high that even it was sold off as pure panic took over all markets.

Emerging markets, as measured by EEM, fell about 28%.

And developed international markets fell about 38% peak to trough, as measured by the IEFA exchange traded fund.

With price dislocations like this, there was really nowhere to run except cash. And these price dislocations are exactly what prompted the Fed to back stop all of the markets that they did in an effort to stave off more price weakness. And you can see from these charts, most U.S. assets did rebound of the lows and are showing signs of stabilization and recovery.

Nevertheless, the response to the virus should have us squarely in a recession. Jobless claims have skyrocket in a manner that we have never seen before, as illustrated by the chart below. And projections for quarterly GDP are among the worst ever seen.



And this brings us to another worry for the market. In the last newsletter, we discussed how Andrew Slimmon of Morgan Stanley did some research on past Presidential election cycles and how the economy appears to influence the results. His work showed that, there has never been a President up for re-election that didn't get re-elected if the economy was NOT in a recession in the 2 years leading up to the election. **And only 1 president was ever re-elected if a recession occurred during that time frame.**

Given that it certainly looks like that we are in a big recession, it would appear that the idea of a Trump re-election might be in jeopardy. Obviously, some will rejoice in this and others will hate it. But anytime there is a change in governmental policies, markets need to adjust and go through a time of change.

With all of this information, we feel it is pretty obvious that almost all asset prices are depressed and dislocated. And we use the term dislocated purposefully. Given that we don't know what GDP will be, we don't know where unemployment will peak, and we don't know where earnings will be, investments are being priced with no anchor to base valuations off of. Therefore, they are dislocated from actual data and assets are being priced based on feelings and emotion; mainly fear right now.

However, we think there are 3 steps that need to be completed before these dislocations can be fixed and we re-establish actual valuations of assets.

The first one is to get the spread of the virus under control. This is probably a three step process as well. 1-get accurate and rapid testing facilities in place. 2– get a treatment working. 3-find someway to ensure we can control future outbreaks. It does appear that all of these steps in the process are underway and some progress is being made.

The next step is for the economy to be re-opened. We need people to get back to work and begin generating income again. Inherent in this is businesses being opened back up. This will get the American way of life restarted and the normalization process can begin.

And the final step is for the data to begin rolling in with this new "normal" economy. This will allow us to understand what GDP will be, what employment levels are, and what corporate profits will be. This will let us properly value assets and the price dislocations will disappear.

And to be completely frank just about the time this happens, we should be getting ready for the Presidential election. Interestingly enough, before this year started our main theme was that the markets will be volatile because of the election uncertainty. Therefore we believe that once the virus gets manageable, we will have to be positioned to handle the election uncertainty.

However once the election is over, we should be set and ready for a rip roaring Bull Market run. Most likely, prices in the market won't be overly high due to all this uncertainty. But then we will have an amazing level of transparency given the election is over and the coronavirus (hopefully) is under control. AND WE WILL HAVE AN UNPRECEDNETED LEVEL OF ECONOMIC STIMULUS ROARING THROUGH THE SYSTEM.

It is this stimulus on top of certainty that should really push the markets higher. Unless, of course, we get another unexpected shock to the system. And, to be completely transparent, these events are almost always unpredictable. Which is why we asset allocate based on client's goals, objectives, and risk tolerances in an effort to control systemic risk in portfolios from unseen events and normal market gyrations.

Regardless, 2020 is certainly not a boring year. And there will be a lot more twists and turns before the year is over. We will remain diligent in our efforts to properly position your portfolios to withstand the bouts of volatility, while getting positioned for the expected Bull Market at the end of the year and into 2021.

Non-Financial Events occurring this quarter

March Madness was cancelled due to the Corona Virus

Kobe Bryant and his daughter were two of the people killed in a helicopter crash on January 26th

Terrorist leader Qasem Soleimani was killed by a US drone strike on January 3rd.

The World Health Organization declares the Corona Virus a pandemic on March 20th

INFORMATION AND DISCLOSURES

This publication is a snapshot of the research and opinions of MRP Capital Investments, LLC. And with that, the opinions and predictions set forth in our publications are our professional beliefs at the time of publication. We are not under duress or pressure from any of the corporate entities mentioned, nor do we intend to do business with them on the investment banking or advisory side of things. This report is not a solicitation or inducement to take action, whether buying or selling, based upon the opinions presented.

Although MRP Capital Investments, LLC is an investment advisor, these publications are not to be construed as investment advice. We strive to be as impartial, insightful and accurate as possible. We do base our opinions, analysis, and calculations on information and analysis that we believe to be reliable, but we cannot guarantee that they are either accurate or complete. We may change our minds about any item mentioned and we will not necessarily update them in print.

Please contact MRP Capital Investments, LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current Form ADV Part 2A disclosure brochure is available upon request.

MRP Capital Investments, LLC and/or its officers or employees, may have a position in the securities mentioned in this report, and may purchase or sell such securities from time to time.

Finally, we must disclose that investments have the potential for profit and loss and that PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

MRP CAPITAL INVESTMENTS, LLC

8440 Holcomb Bridge Road, Suite 520

Alpharetta, GA 30022

404-274-7851

www.mrpci.com